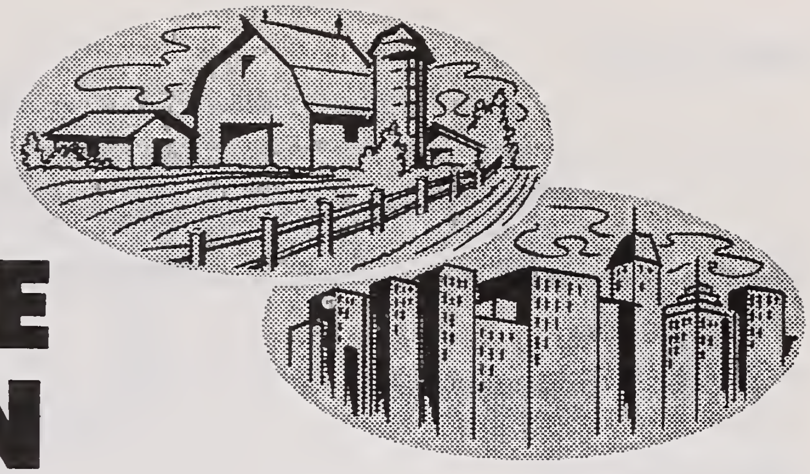
1968 OUTLOOK ISSUE

DEMAND AND PRICE SITUATION



DPS-114 For A.M. Release, November 13, 1967

IN THIS ISSUE

Published quarterly by
ECONOMIC RESEARCH SERVICE
U. S. DEPARTMENT OF AGRICULTURE

Table 1.--Economic factors affecting agriculture

Item	Unit or base period	1966 Year	1966 Sept.	1967 July	1967 Aug.	1967 Sept.	1967 Oct.
Industrial production 1/ 2/	1957-59=100	156	158	157	158	156	---
Final products	do.	155	156	157	158	157	---
Consumer goods	do.	147	147	147	148	146	---
Autos	do.	170	149	161	164	134	---
Equipment, including defense	do.	173	177	178	179	179	---
Materials	do.	157	159	156	157	156	---
Construction: 3/ 4/							
Total outlays	Mil. dol.	74,371	73,981	75,906	77,045	78,202	---
Public construction	Mil. dol.	23,925	23,874	26,755	26,875	27,073	---
Private residential	Mil. dol.	23,815	22,678	23,652	24,619	25,419	---
Housing starts, private only	Thousands	1,165	1,048	1,369	1,403	1,457	---
Manufacturers' shipments, orders, and inventories: 2/ 3/							
Total shipments, monthly rate	Mil. dol.	44,037	44,091	45,346	45,675	44,448	---
Durable goods, monthly rate	Mil. dol.	23,006	22,971	23,136	23,633	22,750	---
Unfilled orders	Mil. dol.	79,917	79,170	79,764	79,985	80,482	---
Inventory stocks, book value 5/	Mil. dol.	77,897	74,884	80,897	81,370	81,406	---
Durable goods	Mil. dol.	50,037	47,568	52,346	52,784	52,766	---
Employment and wages: 2/ 6/							
Total civilian employment	Millions	72.9	73.2	74.5	74.7	74.6	---
Nonagricultural	do.	68.9	69.3	70.6	70.7	70.9	---
Unemployment	do.	2.9	2.8	3.0	3.0	3.2	---
Workweek in manufacturing	Hours	41.3	41.4	40.4	40.7	40.7	---
Hourly earnings in manufacturing, unadj.	Dollars	2.72	2.75	2.82	2.82	2.85	---
Income and spending:							
Personal income 3/ 4/	Bil. dol.	584.0	594.1	627.0	631.5	633.5	---
Consumer credit outstanding 1/ 5/	Mil. dol.	94,786	91,639	95,115	95,684	95,886	---
Automobile	Mil. dol.	30,961	30,793	31,364	31,455	31,296	---
Total retail sales, monthly rate 2/ 3/	Mil. dol.	25,306	25,703	26,444	26,558	26,688	---
Durable goods, monthly rate	Mil. dol.	8,151	8,394	8,592	8,542	8,704	---
Inventory stocks, book value 5/	Mil. dol.	36,961	36,355	35,997	35,947	---	---
Prices: 6/							
Wholesale prices, all commodities 7/	1957-59=100	105.9	106.8	106.5	106.1	106.2	106.1
Industrial commodities	do.	104.7	105.2	106.0	106.3	106.5	106.7
Farm products	do.	105.6	108.7	102.8	99.2	98.4	97.1
Processed foods and feeds	do.	113.0	115.5	113.1	112.1	112.7	111.7
Consumer price index, all items	do.	113.1	114.1	116.5	116.9	117.1	---
Food	do.	114.2	115.6	116.0	116.6	115.9	---
Prices received by farmers 8/	1910-14=100	266	270	257	256	252	251
Crops	do.	235	235	225	224	217	224
Livestock and products	do.	292	300	285	283	283	275
Prices paid, interest, taxes and wage rates 8/	1910-14=100	334	337	345	343	344	345
Family living items	do.	315	318	323	323	323	324
Production items	do.	285	289	291	289	289	289
Parity ratio 8/		80	80	74	75	73	73
Farm income and marketings: 8/							
Volume of farm marketings	1957-59=100	121	132	118	129	138	
Cash receipts from farm marketings	Mil. dol.	43,219	4,025	3,335	3,654	3,953	

Annual data for most of these items for years 1929, 1941, 1947, and 1953-66 appear on page 38 of the May 1967 issue of the Demand and Price Situation.

1/ Federal Reserve Board. 2/ Seasonally adjusted. 3/ U.S. Department of Commerce. 4/ Seasonally adjusted annual rates. 5/ End of year or month. 6/ U.S. Department of Labor. 7/ Beginning January 1967, reflects revised weighting structure and some new series for wholesale prices. Details available from Bureau of Labor Statistics, U.S. Department of Labor. 8/ U.S. Department of Agriculture.

DEMAND AND PRICE SITUATION

Approved by the Outlook and Situation Board, November 2, 1967

CONTENTS

SUMMARY AND OUTLOOK

The agricultural situation in 1967 is turning out to be one of record large supplies of farm products and lower prices than a year ago. Realized net farm income this year may be down about 10 percent from the near-record $16.4 billion in 1966. Market supplies of farm products are expected to be moderately larger in the coming season. Larger crop marketings will reflect record 1967 crops. Total livestock output next year will likely average around the high 1967 level. Further demand expansion in the coming year will likely result in higher average prices for livestock products. Accordingly, larger cash receipts are anticipated for livestock; receipts for crops may total larger in 1968. A gain in realized gross farm income, including larger Government payments, is likely for next year, but the uptrend in farm production expenses will continue. As a result, realized net income for 1968 is expected to total around the $14¾ billion now indicated for 1967. With further declines in the number of farms, realized net income per farm will likely rise in the coming year.

The volume of farm marketings in 1967 will total about 3 percent larger and average prices around 5 percent lower than last year. Market receipts to producers are estimated only moderately below the record $43.2 billion in 1966. With continued increases in production expenses, realized net income this year is running below near-record 1966 levels. Smaller receipts for hogs, broilers, eggs, and cotton in 1967 largely accounted for the decline in total cash receipts from marketings.

Livestock output in 1967 will total around 2½ to 3 percent above 1966. Even with sizable gains in consumer demand, this year's prices are expected to average 4 to

5 percent below last year. Prospects for 1968 point to little change in total production of livestock products. Lower prices and higher production costs earlier this year for turkeys and eggs may lead to a moderate cutback in production in the coming year. The uptrend in broiler production is expected to continue in 1968, although gains may be smaller than in recent years. Little change in production of beef and milk is in prospect for 1968, and pork production this fall and next winter may total around the high year-earlier level. However, weekly hog slaughter in September and October was still running about 7 percent above a year earlier. Moreover, abundant supplies of feed at relatively low prices could lead to production increases later in 1968, particularly for hogs and poultry.

On the basis of October 1 indications, total crop production for 1967 was estimated at a record, some $4\frac{1}{2}$ percent above 1966 output. Cropland used for crops was up more than 4 percent and yields averaged slightly higher than in 1966. Big production gains are assured for wheat, rice, feed grains, and soybeans. In response to larger 1967 crops, prices received by farmers have declined. In mid-October wheat prices were down 10 percent, corn 19 percent, and soybeans 12 percent from October 1966. However, the all-crop price index for calendar 1967 likely will average 5 to 6 percent below 1966.

Unfavorable weather in many areas of the Cotton Belt resulted in a larger-than-expected decline in cotton production. The 1967 crop of 8.1 million bales is down more than 16 percent from last year's small crop. Cotton prices received by growers in October averaged a fifth above a year earlier. Indicated 1967/68 production of citrus and this year's deciduous fruit crop are well below a year earlier, pointing to smaller supplies of fresh and processed fruits through the summer of 1968. Reduced supplies will likely result in generally higher prices for fruit in 1968. Supplies of processed vegetables for the 1967/68 season are estimated above a year earlier, and prices are expected to average moderately lower. This fall's potato crop is up only slightly. But available supplies of potatoes for later use will be larger because of heavy storage losses last year in Idaho. Potato prices are down from 1966 levels and are expected to continue below a year earlier well into 1968.

Further growth in domestic demand for farm products and little change in exports are in prospect for 1968. The generally lower level of prices for grains and soybeans in the 1967/68 marketing year are expected to increase utilization. However, use of the large 1967/68 grain and soybean crops will probably fall short of indicated production, resulting in some stock accumulation by the end of the 1967/68 marketing season. But another sizable reduction in cotton carryover stocks is in prospect as utilization greatly exceeds the small 1967 crop.

In order to adjust output more closely to expected demand, program changes have been announced for wheat, corn, grain sorghum, and cotton. The 1968 Wheat Program reduces the National acreage allotment from 68 million to 59 million acres for the 1968 crop. The 1968 Feed Grain Program is designed to encourage smaller plantings of corn and sorghum grains. As a result, acreage planted to grains may total nearly 10 percent less than this year. On the other hand, the 1968 Cotton Program has been designed to expand production to about snnual disappearance of 13 to 14 million bales.

Prospective increases in economic activity, employment, and wage rates point to a continued rise in disposable income, although higher taxes would be a moderating factor. With rising incomes and higher prices, expenditures for food will likely total some 3 to 5 percent higher in 1968, about in line with the indicated increase for 1967. However, the percent of income spent for food will probably average fractionally below the 17.7 percent estimated this year.

Per capita food consumption of both crop and livestock products may change little in 1968. Retail food prices will likely rise more in 1968 than the 1-percent increase indicated for this year. An increase of perhaps 2 to 3 percent now appears most likely for next year. Retail prices will likely average higher in 1968 for fruits, beef, poultry and eggs. However, with larger supplies in prospect for potatoes, sweetpotatoes, and most processed vegetables, retail prices for these items in the 1967/68 season may average around levels a year earlier.

Large supplies of farm products in other countries and generally higher prices for major U.S. export crops during 1966/67 were largely responsible for the small increase in exports compared with other recent years. The value of agricultural exports in 1966/67 totaled $6.8 billion, about the same as a year earlier. Aid shipments of $1.6 billion were down slightly from 1965/66, while commercial dollar sales increased slightly.

Agricultural exports in the coming year may change little from the $6.8 billion in 1966/67. Lower farm product prices in the current marketing year should improve the competitive position of U.S. exports, particularly of grains and soybeans. However, lower prices may largely offset the effect of an increase in volume on the value of exports. Larger exports are in prospect for soybeans, rice, vegetable oil, and corn. Exports of cotton and wheat in 1967/68 are expected to change little from the previous season. Prospects for U.S. tobacco exports remain uncertain because of the political situation in Rhodesia. Exports in 1967/68 may be moderately below last year's large exports. Exports of fresh and processed fruits in 1967/68 will likely run below year-earlier levels, reflecting smaller domestic production.

General Economic Outlook

Growth in the American economy picked up during the second half of 1967 and further expansion is expected in 1968. Because of slow growth in the first half, the gross national product in 1967 is expected to total $784 billion, up $5\frac{1}{2}$ percent from 1966. Last year the gain was 8.7 percent. Prospective demand increases for the coming year point to further expansion in economic activity. The increase may exceed the 1967 rise, but is not expected to match the large 1966 gain.

The sluggish performance of the economy during the first half of 1967 was due primarily to a large accumulation of unsold goods in late 1966. This led to cutbacks in production during early 1967 as businessmen attempted to adjust inventories. The rate of inventory growth fell sharply. But final sales of goods and services continued to rise. And the inventory adjustment progressed, the continued advance in sales generally improved the relationship between sales and inventories. Despite some slowing in economic growth early in 1967, upward price trends have continued. The general price level (GNP deflator) for the first three quarters this year averaged 2.9 percent above a year earlier, somewhat more rapid than the rate of increase of a year earlier.

Further expansion in demand is anticipated for the coming year with most of the increase expected in expenditures by consumers and both Government sectors--Federal, and State and local. Government spending for goods and services has continued to rise during 1967, reflecting increased demands for services of State and local Governments and larger defense expenditures. Purchases by State and local Governments have risen about 12 percent this year, and a similar increase is expected in 1968. Federal purchases of goods and services, mainly for defense, have also risen, but the rate of increase has slowed through the year. Defense spending rose in the third quarter by

one of the smallest amounts since the acceleration began in mid-1965. Purchases are expected to trend upward in the coming year, but at a slower pace than this year.

Lagging revenues, especially during January-June 1967, have resulted in a large Federal deficit so far this year. In order to reduce the deficit and possible inflationary pressures associated with it, the Administration has recommended a 10-percent surcharge on corporate and personal income tax liabilities.

Capital expenditures by businessmen declined slightly during the first half of 1967. Although intentions point to larger capital outlays, only a small rise is indicated for the last half of 1967 and for 1968. Machinery and equipment orders continue high and nonresidential construction contracts have been rising. However, a significant acceleration in fixed capital investment now appears unlikely. Rates of capacity utilization are considerably below a year ago. Although the pace of economic activity is picking up, prospective increases in capacity, at current high levels of capital outlays, will probably about match increases in output. The decline in profits has leveled and some increase is expected with the rise in output. However, gains could be partially offset by increased taxes and higher unit labor costs.

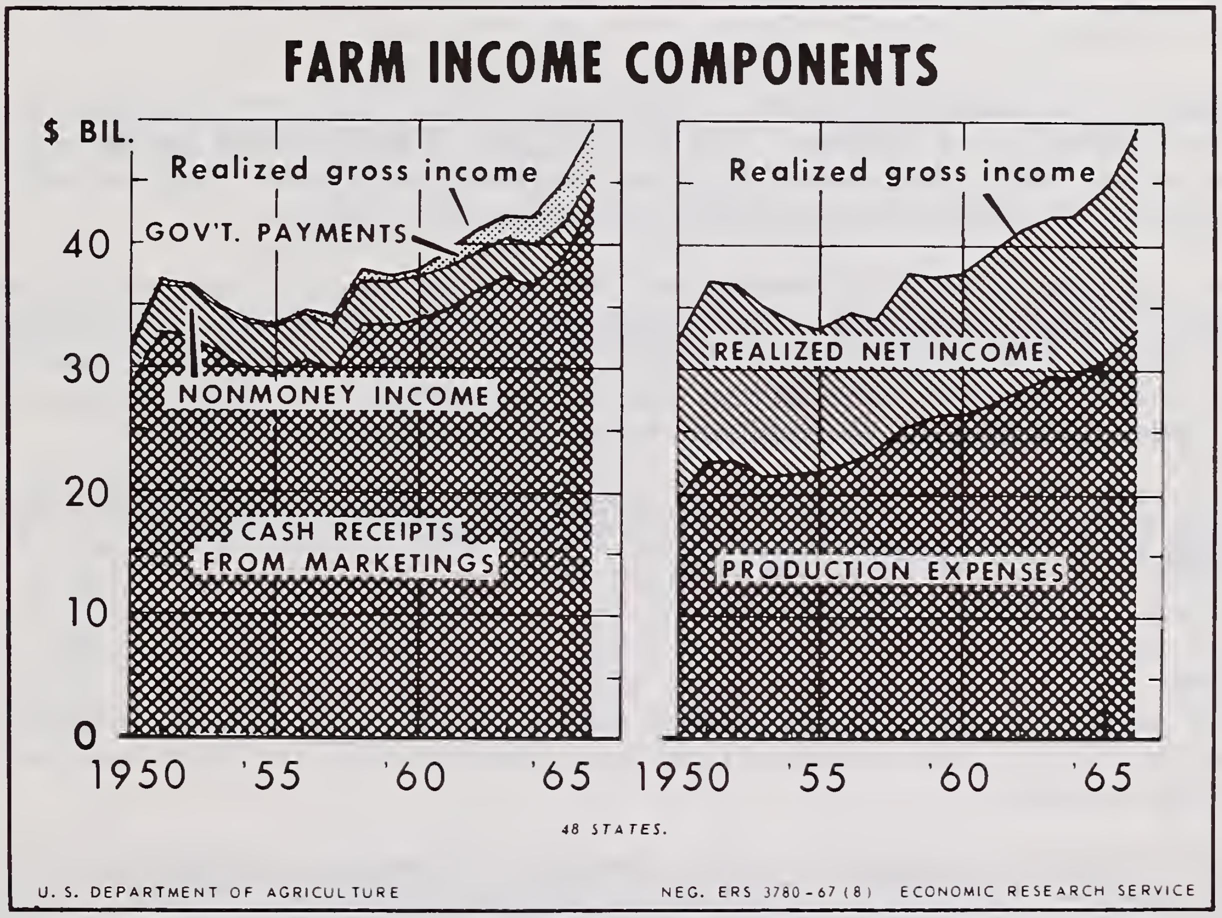
Housing activity has been recovering during 1967 in response to increased availability of mortgage credit and slightly lower interest rates earlier this year. The third quarter level of housing starts was 54 percent above the 1966 fourth quarter trough, but still slightly below the average level in 1965. Demand for housing is growing and vacancy rates have declined. Deferred demand from last year, rising consumer incomes, and increasing family formation should strengthen the demand for housing in 1968. But recovery in homebuilding activity could be limited by tight credit conditions. Rapid increases in economic activity, continued heavy demands for funds, and high interest rates may restrict funds available for home mortgages and generally increase the costs of homebuilding.

Although consumer savings rates appear relatively high, reports on buying intentions point to some pick up in consumer purchases in coming months. Purchases of durables are expected to increase in 1968, reflecting another good auto year and increased purchases of household durables, particularly if homebuilding activity continues to rise. Food purchases are expected to increase by 3 to 5 percent from this year, and spending for other nondurables and services will continue to rise with further gains in consumer incomes.

Consumer disposable income will rise in 1968 with advances in output, employment, and wage rates. In addition to further growth in employment and hours worked, large wage increases are expected in the automobile and some other industries. Moreover, negotiations in other important industries such as steel will take place in 1968. Social security benefits also will be raised. Although an increase in tax liabilities would moderate the rise in disposable income, further sizable gains in consumer buying power are in prospect for 1968.

Indicated expenditure increases for consumer goods, capital outlays, and Government purchases are expected to expand total demands on the economy in 1968. Present plant operating rates and prospective growth in capacity do not point to general upward pressure on prices. However, the general price level is expected to rise further in 1968. Wage demands have increased this year, due in part to increases in the cost

of living during the past 2 years. Productivity gains may be larger in 1968 as the rate of production picks up, but unit labor costs also are expected to rise. An expanding demand, too, may make it easier for industries to increase prices in order to offset rising costs of production. The rise in the general price level in the coming year may be as large as this year and perhaps larger, depending largely on wage settlements, productivity gains, and possible changes in tax rates. Rising prices in the nonfarm sector contribute importantly to increases in farm production costs and, thus, limit gains in net income realized from farming.



AGRICULTURAL SITUATION

Supplies of farm products in 1967 are record large and, even though consumer demand grew substantially, prices are averaging around 5 percent lower (table 2). During the first half of the year, production of red meats, poultry, and eggs ran sharply higher, although milk production was about unchanged from 1966. As a result, livestock and product prices averaged 6 percent lower.

Since mid-year, overall gains in livestock production over a year earlier have narrowed. During July-September production of beef (carcass weight basis) was about the same as a year earlier. On the other hand, hog production continued to run considerably above a year ago, and production of poultry meats was up $6\frac{1}{2}$ percent, compared with a gain of 11 percent in the first half. Egg production continued to average about 7 percent above July-September 1966.

With large production of meats and increased cold storage holdings, particularly the large holdings of poultry, July-September livestock prices averaged 4 percent below a year earlier. Meat prices received by farmers in the third quarter were 2 percent lower, due primarily to lower hog prices, and poultry and egg prices were down nearly one-fifth compared with a year ago. Dairy product prices were down fractionally from a year earlier.

In addition to large livestock supplies this year, crop supplies have been expanding with this year's abundant wheat, feed grain, and soybean harvests. Grain and soybean prices were under heavy downward pressure as harvest time approached and in October prices averaged 8 to 15 percent below a year earlier.

Large supplies of many vegetables and the new potato crop also contributed to lower average crop prices during July-September. Partially offsetting these declines were higher prices for fruits and dry beans. Compared with a year earlier, average crop prices were 8 percent lower during the third quarter. In coming months, the all crop price index is expected to continue below the year-earlier level.

Cash receipts from farm marketings during the first 9 months of 1967 totaled \$42.6 billion (annual rate), down 1 percent from a year earlier (table 3). A larger volume of both crop and livestock marketings was more than offset by slightly lower average prices. Realized gross income totaled around \$500 million lower, reflecting lower market receipts and smaller direct Government payments under the 1967 Feed Grain Program. Farm production expenses, moreover, were up more than \$1 billion due to increased purchases and slightly higher prices paid. As a result, realized net farm income was \$14.8 billion, down 11 percent from the \$16.6 billion received in the first 9 months of 1966.

Current indications point to little overall increase in livestock production next year. However, large feed supplies and low feed prices may lead to slightly larger livestock production later in 1968. There were 8.6 million head of cattle on feed on October 1, 1967, up nearly 2 percent from a year earlier. Cattle feeders stated intentions to market 2 percent more fed cattle during the October-December quarter than a year earlier. A larger supply of cattle in the lighter weight groups indicates that fed cattle marketings during the first half of 1968 may run about the same as, or moderately higher than, in the first 6 months of this year. Fed cattle prices will likely remain about steady this fall and winter at levels moderately above a year earlier.

Table 2.--Index numbers of agricultural prices and marketings 1950-67 annually, and 1965-67 quarterly

Period	Prices received by farmers 1910-14=100			Prices paid by farmers, 1910-14=100			Parity ratio	Volume of farm marketings 1957-59=100		
	Total	Crops	Livestock and products	Total 1/	Family living	Production		Total	Crops	Livestock and products
1950	258	233	280	256	246	246	101	83	85	82
1951	302	265	336	282	268	273	107	84	84	85
1952	288	267	306	287	271	274	100	88	89	86
1953	255	240	268	277	269	256	92	92	95	90
1954	246	242	249	278	270	255	89	93	92	93
1955	232	231	234	276	270	251	84	96	96	96
1956	230	235	226	278	274	250	83	99	97	101
1957	235	225	244	287	282	257	82	94	88	99
1958	250	223	273	294	287	264	85	101	104	98
1959	240	222	256	298	288	266	81	105	108	103
1960	238	222	253	300	290	265	80	107	112	104
1961	240	227	251	302	291	266	80	109	110	108
1962	244	232	255	307	295	270	80	111	112	110
1963	243	239	245	312	298	273	78	116	119	114
1964	237	239	236	313	300	270	76	118	119	118
1965	248	234	261	321	306	276	77	118	119	118
1966	266	235	292	334	315	285	80	121	121	120
1967	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	2/124	2/124	2/124
1965:										
I	238	237	239	318	303	273	75	101	85	113
II	250	245	255	322	306	277	78	91	58	115
III	252	230	271	322	306	277	77	121	125	119
IV	253	223	280	323	307	277	78	160	207	125
1966:										
I	268	232	299	329	311	282	81	106	98	112
II	264	239	286	333	314	283	79	95	65	118
III	270	240	296	335	317	287	80	122	122	122
IV	261	231	286	337	318	287	78	159	197	130
1967:										
I	252	224	276	340	318	289	74	2/109	2/96	2/118
II	251	224	274	342	320	289	73	2/100	2/69	2/122
III	255	222	284	344	323	290	74	2/128	2/133	2/125

1/ Prices paid, interest, taxes, and wage rates. 2/ Preliminary estimates as of October 1, 1967. n.a. - Not available.

U.S. Department of Agriculture.

Table [illegible].--Gross and net income from farming, 1950-66 annually and 1965-67 quarterly

Year	Cash receipts: Marketings	Cash receipts: Crops	Cash receipts: Livestock and products	Realized nonmoney income	Government payments	Realized gross farm income	Farm production expenses	Farm operators' net realized income	Net change in farm inventory	Farm operators' total net income 1/
	-Billion dollars-									
1950	28.5	12.4	16.1	3.5	0.3	32.3	19.4	12.9	0.8	13.7
1951	32.9	13.2	19.6	3.9	.3	37.1	22.3	14.8	1.2	16.0
1952	32.5	14.3	18.2	4.0	.3	36.8	22.6	14.1	.9	15.1
1953	31.0	14.1	16.9	3.8	.2	35.0	21.3	13.7	-.6	13.1
1954	29.8	13.6	16.3	3.5	.3	33.6	21.6	12.0	.5	12.5
1955	29.5	13.5	16.0	3.4	.2	33.1	21.9	11.2	.2	11.5
1956	30.4	14.0	16.4	3.3	.6	34.3	22.4	11.9	-.5	11.4
1957	29.7	12.3	17.4	3.3	1.0	34.0	23.3	10.7	.6	11.3
1958	33.5	14.2	19.2	3.4	1.1	37.9	25.2	12.7	.8	13.5
1959	33.5	14.6	18.9	3.3	.7	37.5	26.1	11.4	.1	11.5
1960	34.0	15.1	18.9	3.2	.7	37.9	26.2	11.7	.3	12.0
1961	34.9	15.5	19.4	3.2	1.5	39.6	27.0	12.6	.3	12.9
1962	36.2	16.2	20.0	3.1	1.7	41.0	28.5	12.5	.6	13.1
1963	37.2	17.3	19.9	3.2	1.7	42.1	29.6	12.5	.6	13.1
1964	37.1	17.2	19.8	3.1	2.2	42.4	29.4	13.0	-.8	12.2
1965	39.1	17.3	21.8	3.2	2.5	44.8	30.9	13.9	1.0	14.9
1966 2/	43.2	18.4	24.8	3.2	3.3	49.7	33.3	16.4	-.2	16.2
1965: 3/										
I	37.6	17.0	20.6	5.5		43.1	29.9	13.2	.5	13.7
II	39.3	17.8	21.5	5.6		44.9	30.8	14.1	1.0	15.1
III	39.5	17.1	22.4	5.7		45.2	31.3	13.9	1.4	15.3
IV	40.0	17.4	22.6	5.8		45.8	31.6	14.2	1.2	15.4
1966: 2/ 3/										
I	43.3	18.5	24.8	6.2		49.5	32.6	16.9	.4	17.3
II	43.1	18.4	24.7	6.4		49.5	33.1	16.4	-.2	16.2
III	43.3	18.6	24.7	6.7		50.0	33.5	16.5	-.4	16.1
IV	43.2	18.6	24.6	6.7		49.9	34.0	15.9	-.6	15.3
1967: 2/ 3/										
I	42.6	n.a.	n.a.	6.7		49.3	34.3	15.0	-.2	14.8
II	42.4	n.a.	n.a.	6.7		49.1	34.5	14.6	-.1	14.5
III	42.9	n.a.	n.a.	6.3		49.2	34.4	14.8	.4	15.2

1/ Details may not add to totals due to rounding. 2/ Preliminary. 3/ Quarterly data seasonally adjusted at annual rates.
n.a. - not available.
U.S. Department of Agriculture.

The September Pig Crop Report suggests there were slightly fewer hogs on farms in the 10 Corn Belt States that would reach market weights by next spring. As a result, pork production (carcass weight basis) this fall and winter may run above a year earlier. However, weekly slaughter in September and October continued about 7 percent above year-earlier levels. In addition, the record large feed supply and improvements in the product-feed price ratios could lead to production increases later in 1968, particularly for hogs and poultry.

Generally lower poultry prices and higher production costs in early 1967 have recently led to slight cutbacks in poultry meat production rates to around year-earlier levels. Egg production, however, continues to average about 7 percent above year-earlier levels, despite sharply lower prices this year. Current indications point to a further though slower rise in broiler production in 1968, and a cutback in egg production in late 1968.

Milk production in 1967 is running fractionally below the 120.2 billion pounds produced in 1966. The outlook for next year for production points to little change from this year's level. Again, output gains per cow will likely offset the continued decline in cow numbers.

Total crop production in 1967 is turning out record large. The October crop report estimated total crop production at 117 (1957-59=100), up 4½ percent from the 1966 level (table 4). Total cropland used for crops in 1967 was up more than 4 percent and average yield was slightly higher.

Although there was adverse weather in some areas during September, record large crops for 1967 are likely for wheat, feed grains, soybeans, rice, peanuts, and sugar cane. Of the major crops, only cotton production is expected to be down sharply from 1966 levels. This is the second consecutive year that cotton production has declined dramatically. The current crop is estimated at 8.1 million bales--down 16 percent

Table 4.--Crop production: Index numbers of gross production of crops, United States 1/

(1957-59=100)

Item	1959	1960	1961	1962	1963	1964	1965	1966	1967 2/
All crops 3/	103	108	107	107	112	109	115	112	117
Feed grains	106	109	99	100	110	97	111	111	124
Hay and forage	97	103	102	105	105	105	112	110	114
Food grains	97	115	106	98	102	114	117	118	137
Vegetables	100	103	110	108	108	103	110	110	111
Sugar crops	106	102	115	119	153	156	138	139	135
Cotton	118	116	116	121	125	124	121	78	65
Tobacco	104	112	119	134	135	129	107	107	116
Oil crops	98	105	122	123	128	128	153	165	174

1/ For historical data and explanation of indexes, see Changes in Farm Production and Efficiency, USDA Statistical Bulletin No. 233.
2/ Preliminary indexes for 1967 based on October 1967 "Crop Production" report and other releases of the Crop Reporting Board, SRS.
3/ Includes other products not included in the separate groups shown.

Economic Research and Statistical Reporting Services

from a year earlier. Poor weather, larger acreage diversion, and increased abandonment were responsible for the decline. Supplies of fresh and processed vegetables this fall are estimated above year earlier levels. On the other hand, a fourth smaller dry bean crop is in prospect. Although the fall potato crop is up only slightly from last year, supplies available for later use will be up by a larger amount because storage losses are expected to be less than last year, especially in the West. The 1967/68 fruit supply this fall and winter is substantially below a year earlier. Noncitrus production is estimated 14 percent smaller, and the 1967/68 citrus crop is now indicated a fourth below the record crop of last year.

The demand for food continued to expand in 1967. During the third quarter, food expenditures were up $1 billion (seasonally adjusted annual rate) from the previous quarter. For the year, they are expected to total $97 billion, 4 percent above the previous year. This rise compares with last year's increase of 8 percent.

Retail food prices this year are averaging around 1 percent above a year earlier, due to 5 percent higher prices for food consumed away from home. The relatively small gain in retail prices reflects increased food supplies and lower farm product prices. With supplies up more than population, per capita food consumption is running about 1 percent larger in 1967, with gains shared by both animal and crop products. Per capita increases are occurring in most major food groups, except fats and oils and dairy products.

Food expenditures in 1968 will probably increase about in line with this year's rise. With further gains in disposable income, the percent of income spent for food will probably decline slightly from this year's 17.7 percent.

Retail food prices are expected to rise in 1968, perhaps around 2 to 3 percent compared with about a 1 percent increase this year. The expected rise in food prices reflects little change in per capita food use and a continued rise in consumer disposable income per person. Slightly smaller per capita supplies are likely for beef, veal, and eggs, and supplies of fruits may be substantially lower, particularly during the first half of the year. On the other hand, small increases in supplies are likely for most processed vegetables, potatoes, and fats and oils. Little change is likely for dairy, poultry meats, pork, and cereal products.

Although utilization of feed grains declined in 1966/67, it exceeded production and led to a further draw down in feed grain stocks. Stocks of feed grains were down 5 million tons this year to about 37 million tons, compared with 42.1 million tons a year earlier. Roughly one-half of this year's carryover is held in private hands. Generally more favorable livestock-feed price ratios this season should expand the domestic use of feed and current prospects point to some increase in exports of corn. However, since the record 1967 feed grain crop will likely exceed prospective utilization, carryover at the end of the season will probably be larger.

The July 1 carryover of wheat totaled 426 million bushels, the smallest level since 1952. With the outlook for some increase in domestic use of the 1967/68 wheat crop, and the 750 million bushel export target, carryover next July 1 will probably slightly exceed last year's 426 million bushels.

Soybean stocks are record large this fall, reaching 90.6 million bushels on September 1--more than twice the level of a year earlier. Although lower soybean prices during 1967/68 should expand domestic crush and exports, carryover at the end of the crop year could increase to around $1\frac{1}{2}$ times this year's level.

Table 5.--Stocks of grains, with comparisons

Grain and position	October 1, 1959-61 average	October 1, 1966	October 1, 1967
	Mil. bu.	Mil. bu.	Mil. bu.
WHEAT			
On farms 1/	489.5	543.7	609.4
Off farms 2/	1,774.4	897.2	955.7
Total*	2,263.9	1,441.0	1,565.2
CORN			
On farms 1/	455.0	529.7	563.2
Off farms 2/	1,320.8	310.5	254.1
Total*	1,775.9	840.2	817.3
OATS			
On farms 1/	900.6	675.4	659.5
Off farms 2/	115.4	157.6	134.0
Total*	1,016.0	832.9	793.5
BARLEY			
On farms 1/	263.7	245.3	228.4
Off farms 2/	191.8	140.0	149.5
Total*	455.5	385.2	377.9
GRAIN SORGHUM			
On farms 1/	24.5	50.6	45.7
Off farms 2/	573.1	340.6	199.5
Total*	597.6	391.2	245.1
SOYBEANS 3/			
On farms 1/	n.a.	4.4	42.2
Off farms 2/	n.a.	31.2	48.4
Total*	55.6	35.6	90.6

1/ Estimates of the Crop Reporting Board.

2/ Including grain owned by Commodity Credit Corporation.

3/ Soybean stocks and comparisons on September 1 basis, estimated prior to 1965.

n.a. Not available.

*Totals from unrounded data.

Cotton stocks on August 1 totaled about $12\frac{1}{2}$ million bales, down nearly a fourth from August 1966. Another small crop this year, combined with an outlook for a continued high disappearance, indicates a further significant decline in U.S. cotton stocks. By next August, stocks may drop below 7 million bales.

Exports of U.S. farm products for fiscal year 1967/68 (year beginning July 1) were off to a slow start in the July-September quarter. Sharp declines in the export value of grains, tobacco, and animal products more than offset a big increase in soybean exports. The 3-month export total was $1,433 million, 12 percent below the corresponding period of a year earlier (table 6).

The value of feed grain exports during July-September were down about 30 percent from a year earlier. Most of the decline was due to lower corn exports, although movement of oats, barley, and sorghum was also slower. For the year, feed grain exports are expected to change little from the 1966/67 level.

Exports of wheat were off by 15 percent during July-September compared with the record breaking pace of a year earlier. However, wheat exports are holding up well in view of the near record world wheat crop. The total value of rice exports was about the same as in July-September 1966 and for the year is expected to exceed last year's high level.

Tobacco exports in July-September totaled nearly a fifth below the unusually large total in the same period last year. Although the volume of tobacco exports during 1967/68 will probably not match last year's 47-year high, they are expected to well exceed other recent years.

Table 6.--U.S. agricultural exports, value of major commodities, July-September 1966 and 1967

Commodity	July-September 1966	July-September 1967 1/	Percentage change 2/
	Mil. dol.	Mil. dol.	Percent
Cotton, excluding linters	98.5	85.1	-14
Dairy products	28.7	26.3	-8
Feed grains, excluding products	326.3	231.6	-29
Fruits and preparations	91.6	82.0	-11
Soybeans	96.1	126.3	31
Tobacco, unmanufactured	144.5	120.3	-17
Vegetables and preparations	35.9	33.6	-6
Wheat and flour	402.5	341.1	-15
Rice	51.9	52.1	0
Other	354.1	334.5	-6
Total exports 3/	1,630.0	1,432.8	-12

1/ Preliminary.
2/ Change computed from unrounded data.
3/ Totals may not add due to rounding.

U.S. Department of Agriculture.

The value of soybean exports was up nearly a third during July-September compared with the same period last year. The increase in value occurred despite lower unit prices for soybeans.

Compared with a year earlier, the value of cotton exports was 14 percent lower in the opening 3 months of fiscal 1967/68. The decline was due to a smaller volume of exports and lower average export prices resulting from proportionately larger sales of shorter staple cotton.

Short supplies of fresh and processed fruit resulted in slight declines in July-September fruit exports. For the entire 1967/68 season, the volume of fresh and processed fruit exports is expected to be smaller reflecting reduced domestic production, and prospects for higher average prices.

U.S. agricultural imports, which amounted to $4.5 billion during all of fiscal year 1966/67, totaled $1.1 billion in the current July-September quarter. This was down slightly from the first 3 months of last year. Imports totaled lower for cattle, dairy products, hides and skins, wool, copra and coconut, crude rubber, and bananas. Gains in meat and vegetable imports were partially offsetting. Imports of dairy products will continue sharply lower throughout fiscal year 1967/68 as a result of import quotas for dairy products.

Farm production expenses are continuing to increase this year. Based on current indications, production expenses in 1967 are expected to increase by more than $1 billion from 1966. This compares with a $2.4 billion increase in the previous year (table 7). More than half of the year-to-year increase in farm production expenses in recent years is accounted for by larger current operating costs. Much of the expansion in these costs reflects substitution of purchased inputs for land and labor. Again this year, the rise in farm wage rates is slightly more than offsetting the effect of fewer hired workers on the total wage bill. Continued gains in depreciation reflect large capital expenditures of recent years. In addition, taxes and interest are continuing their long-term uptrend again this year.

Table 7.--Farm production expenses, 1960-66

(Million dollars)

Year	Current operating expenses 1/	Hired labor	Depreciation	Taxes and interest	Net rent to nonfarm landlords 2/	Total
1960	16,007	2,864	4,237	2,127	1,007	26,242
1961	16,500	2,918	4,210	2,279	1,106	27,013
1962	17,715	2,902	4,340	2,440	1,129	28,526
1963	18,382	2,927	4,463	2,606	1,190	29,568
1964	17,809	2,848	4,695	2,781	1,220	29,353
1965	18,764	2,780	4,975	3,014	1,353	30,886
1966	20,404	2,802	5,266	3,292	1,527	33,291

1/ Excludes hired labor.
2/ Includes Government payments to nonfarm landlords.

U.S. Department of Agriculture.

Prices paid by farmers, including interest, taxes, and wage rates have been averaging about 3 percent higher this year, with most items participating in the increase. However, prices paid for purchased feed have averaged lower since mid-year. Prices for feeder livestock so far in 1967 have averaged $3\frac{1}{2}$ percent below the high levels of last year.

Sales of farm machinery and equipment are running only slightly larger this year. Through July, the value of shipments of farm machinery (excluding tractors) was running 2 percent higher. This small rise follows a 3-year average annual increase of over 16 percent per year. Most of the rise this year reflects higher prices paid for farm machinery and equipment and increased sales of grain combines and corn heads for combines.

Shipments of farm tractors have increased each year for the past 7 years. However, the value of shipments of farm tractors, through August of this year, was running less than 1 percent higher, but the number shipped was down 5 percent compared with last year's rise of over 9 percent. Wheel tractor inventories (excluding factory held) in July totaled 13 percent above August 1966. Recent trade data suggest that dealers may be taking steps to reduce tractor inventories. For example, retail sales of farm tractors 1/ in July and August jumped a fifth above year-earlier levels, while manufacturers' shipments apparently continued to decline.

Farmers' expenditures for fertilizer have continued to expand this year. During the first half of the year, production of principal fertilizer materials was above the same period a year earlier. Farmers applied fertilizer to a larger number of acres this year, and per acre rates also were higher.

The value of farm assets continued to expand in 1967. Total farm assets by January 1, 1968, are expected to reach $281 billion, up more than 4 percent from a year earlier. Much of the gain is due to the continued rise in farm real estate values. In addition, larger farm machinery inventories contributed to the rise.

The farm debt may increase almost as much in 1967, as the record advance of a year earlier. This year short-term borrowing increased more sharply than farm real estate credit. Non-real estate credit has been readily available to farmers this year, although at slightly higher interest rates than a year ago. Interest rates on new farm mortgages are sharply higher.

1/ Based on data from Farm and Industrial Equipment Institute.

Table 8.--Other economic factors affecting agriculture (seasonally adjusted annual rates)

Item	Unit	Year 1966	Year 1965	1965		1966				1967		
				III	IV	I	II	III	IV	I	II	III 1/
Gross national product	Bil. dol.	743.3	683.9	690.0	708.4	725.9	736.7	748.8	762.1	766.3	775.1	790.1
Gross national product (1958 prices)	Bil. dol.	652.6	616.7	620.7	634.4	645.4	649.3	654.8	661.1	660.7	664.7	671.6
Disposable personal income	Bil. dol.	508.8	472.2	479.4	489.4	497.5	503.3	512.4	522.0	532.7	540.0	547.9
Personal consumption expenditures	Bil. dol.	465.9	433.1	436.4	447.8	458.2	461.6	470.1	473.8	480.2	489.7	495.8
Durable	Bil. dol.	70.3	66.0	66.1	68.6	71.6	68.2	70.9	70.6	69.4	72.5	73.0
Nondurable	Bil. dol.	207.5	191.2	192.4	198.0	203.2	207.1	209.5	210.3	214.2	217.2	219.0
Services	Bil. dol.	188.1	175.9	177.8	181.2	183.5	186.3	189.8	192.9	196.6	200.0	203.8
Personal savings	Bil. dol.	29.8	27.2	30.9	29.3	26.6	28.7	29.2	34.6	38.8	36.0	37.8
Net Government receipts	Bil. dol.	157.5	139.1	136.4	142.8	150.9	157.5	160.2	161.5	159.7	159.9	---
Government purchases	Bil. dol.	154.3	136.4	138.1	142.3	146.5	151.2	157.7	161.7	170.4	175.0	178.9
Federal	Bil. dol.	77.0	66.8	67.6	69.8	72.1	74.9	79.5	81.5	87.1	89.5	91.4
State and local	Bil. dol.	77.2	69.6	70.4	72.5	74.3	76.2	78.1	80.2	83.3	85.4	87.6
Deficit or surplus (on income and product account)	Bil. dol.	3.2	2.7	-1.7	.6	4.6	6.1	2.6	-.3	-10.8	-15.0	---
Gross private domestic investment	Bil. dol.	118.0	107.4	108.2	112.3	115.2	118.5	116.4	122.2	110.4	105.1	109.8
Fixed investment	Bil. dol.	104.6	98.0	98.8	102.4	105.3	104.5	104.9	103.7	103.3	104.6	108.2
Residential	Bil. dol.	24.4	27.0	26.9	26.8	27.0	25.8	23.7	20.9	21.4	23.1	25.4
Nonresidential	Bil. dol.	80.2	71.1	71.9	75.7	78.3	78.7	81.2	82.8	81.9	81.5	82.9
Change in business inventories	Bil. dol.	13.4	9.4	9.4	9.9	9.9	14.0	11.4	18.5	7.1	.5	1.5
Gross retained earnings	Bil. dol.	89.7	83.7	84.2	86.2	87.6	88.4	89.5	93.6	88.9	89.1	---
Excess of investment	Bil. dol.	-28.3	-23.8	-24.0	-26.1	-27.6	-30.1	-26.9	-28.6	-21.5	-16.0	---
Net exports of goods and services	Bil. dol.	5.1	6.9	7.4	6.1	6.1	5.4	4.6	4.3	5.3	5.3	5.6
Total civilian employment 2/	Mil.	72.9	71.1	71.3	71.8	72.3	72.5	73.1	73.7	74.0	73.8	74.6
Per capita disposable personal income (1958 prices)	Dol.	2,317	2,232	2,258	2,291	2,304	2,302	2,324	2,341	2,373	2,388	2,395

1/ Preliminary. 2/ U.S. Department of Labor.

U.S. Department of Commerce
Series revised beginning 1964. For details and earlier years, see Survey of Current Business, July 1967.

GENERAL ECONOMIC SITUATION

Economic activity continued to improve during the third quarter of 1967 despite the depressing effects of strike activity. The Nation's output of goods and services rose $15 billion 1/ to a $790 billion rate (table 8), a much more rapid gain than in the first and second quarters of 1967. The third quarter increase was broadly based, with all major components advancing.

However, more than half of the $15 billion rise in gross national product was due to higher prices. The general price level (GNP deflator) rose at an annual rate of almost 4 percent in the third quarter, compared with a 2 to 2½ percent rate of advance in the first and second quarters. Most of the faster rise occurred in prices of consumer goods and services. Despite declines in plant operating rates and slight easing in labor shortages this year, forces set in motion earlier continue to influence wages, other costs, and current prices. Previous price increases in some industries associated with the high level of resource utilization in 1965 and 1966 are resulting in higher cost and prices in others. With output picking up, many producers will be able to raise prices to offset rising production costs.

Economic activity will increase less this year than in 1966, despite the fairly strong second half 1967 pick-up. Gross national product in 1967 will average about 5½ percent above 1966, well below the 8.7 percent rise from 1965 to 1966. Current expectations suggest that the second half pick-up will continue in 1968. Although the gain in gross national product is expected to exceed this year's gain, it will likely fall short of the increase from 1965 to 1966.

The improvement in third quarter business activity reflected further growth in sales of goods and services (table 9), and a small increase in the rate of inventory accumulation, the first since the fourth quarter of 1966. Final market sales (GNP less inventory change) continued to expand but slightly slower than earlier in the year. Sales to consumers and Government rose at a slightly slower rate. The recovery in housing activity accelerated, and business spending for new plant and equipment increased after declining slightly for two quarters.

Table 9.--Change from previous quarter in gross national product, final sales, and change in business inventories, 1966-I to 1967-III, seasonally adjusted annual rates

(Billions of current dollars)

Item	1966				1967		
	I	II	III	IV	I	II	III 1/
Gross national product	17.5	10.8	12.1	13.3	4.2	8.8	15.0
Final sales	17.5	6.6	14.8	6.2	15.6	15.4	14.0
Change in business inventories 2/	0	4.1	-2.6	7.1	-11.4	-6.6	1.0

1/ Preliminary. 2/ Represents the change in the rate of change in business inventories. For example, the change in business inventories in the third quarter of 1967 ($1.5 billion) less the change in the second quarter of 1967 ($0.5 billion) equals plus $1.0 billion.

1/ All data in this section are seasonally adjusted annual rates unless other wise specified.

Further growth in final sales during the third quarter continued to aid in working off excess inventories accumulated in 1966. Inventory stocks increased slightly in the third quarter but grew less than sales resulting in further declines in inventory-sales ratios. Inventory stocks of durable goods manufacturers continued to rise but were partly offset by a reduction in inventories of trade firms. While inventories remain high relative to sales in some industries, it appears that the overall inventory adjustment is largely over. Production for inventory may not increase much in the near term. But inventories will eventually grow as sales increase and thus become a source of economic expansion.

Government demand for goods and services maintained its upward course during the third quarter. The increase was smaller than in the second quarter because of a slower rise in Federal purchases. Purchases of goods and services for Federal activities during the third quarter rose about $2 billion to a $91½ billion annual rate. The third quarter rise was one of the smallest in recent quarters and reflected the smallest increase in defense spending since mid-1965. The future course of Federal purchases is uncertain, but Administration estimates for fiscal 1967/68 point to a slower rise in Government purchases of goods and services.

The Federal deficit remained large during the third quarter as it has since the first quarter of 1967. Federal Government revenue picked up due to a rebound in personal income tax payments, but increases in purchases of goods and services, transfer payments, and grants-in-aid to State and local Governments were about offsetting. In view of the current large Federal deficit, prospective increases in spending, and expected rise in overall economic activity, the Administration has proposed a 10 percent surcharge on personal and corporate income tax liabilities.

Ever-increasing demands for education, police protection, transportation, and other public services continue to push up State and local spending for goods and services. Such spending has increased by about $2 billion per quarter this year and probably will continue to rise around that rate in the coming year.

Business expenditures for plant and equipment in the third quarter turned up for the first time since the fourth quarter of 1966. All of the rise was in purchases of equipment; spending for structures leveled off. The third quarter rise was in line with earlier business plans, as of July, for a second half pick-up in investment outlays. Expenditures for new plant and equipment for all of 1967 are now expected to average slightly more than 2 percent above 1966; earlier in the year the anticipated increase was 4 percent (table 10).

A slight uptrend in business investment spending is now in prospect for the coming year. No significant acceleration in fixed capital investment is anticipated. Although machinery and equipment orders are high and nonresidential construction contracts are rising, rates of capacity utilization are well below year-earlier levels. Production is picking up, but prospective increases in capacity, at current rates of investment, should about match increases in output. Accordingly, pressure of output on capacity is not expected. A reduced level of profits also does not suggest a substantial rise in investment spending. Although profits are expected to improve from reduced 1967 levels, the gain could be partially offset if taxes are raised and unit labor costs continue to rise.

The recovery in residential construction activity, under way since early 1967, continued to be an important stimulus to general economic activity in the third quarter. With increased availability of mortgage funds compared with earlier in

Table 10.--Annual percent changes in plant and equipment expenditures, 1963-67

Item	Actual			Actual 1966 to anticipated 1967 as reported in		
	1963-64	1964-65	1965-66	February	May	August
All industries 1/	14.5	15.7	16.7	3.9	2.9	2.3
Manufacturing 1/	18.4	20.8	20.2	3.5	3.4	1.2
Durable goods 1/	20.0	20.9	22.7	4.6	3.6	.8
Primary metals	31.1	20.0	16.4	6.3	4.3	4.8
Machinery	19.2	32.6	32.3	22.8	15.6	9.9
Transportation equipment	25.0	27.8	18.3	-9.0	-3.8	-6.3
Stone, clay, and glass	10.7	14.9	16.6	-5.1	-15.6	-19.9
Nondurable goods 1/	16.9	20.7	17.6	2.3	3.2	1.7
Food and beverage	9.5	16.5	12.1	7.3	5.4	4.0
Textile	17.2	29.8	15.2	-11.6	-14.8	-20.5
Paper	30.0	20.0	34.1	2.8	3.7	7.0
Chemical	22.4	31.7	15.3	1.9	2.6	1.5
Petroleum	15.0	13.7	15.8	3.7	7.2	6.6
Rubber	14.7	24.5	24.7	21.7	29.7	20.0
Mining	14.0	9.3	12.9	8.0	6.2	.8
Railroad	27.5	23.1	14.2	-25.3	-22.6	-20.7
Transportation other than rail	24.0	18.4	22.3	14.7	11.1	14.2
Public utilities	10.1	11.7	21.1	8.8	8.5	11.9
Communications	13.4	15.0	13.6	3.0	.5	-.1
Commercial and other	8.0	8.8	8.1			

1/ Includes industries not shown separately.

U.S. Department of Commerce, Office of Business Economics, and Securities and Exchange Commission.

the year and continued strong demand, the value of housing construction put in place in the third quarter was up 10 percent from the second quarter and more than 20 percent above the trough in the fourth quarter of 1966. Higher prices for building materials and large increases in wage rates of construction workers accounted for part of the increase in value.

New residential housing units point to further growth in construction activity during the rest of 1967. Third quarter housing starts--at an annual rate of 1.4 million units--were up 17 percent from the second quarter and 54 percent from the fourth quarter 1966 trough. Housing should continue to recover next year if the supply of residential mortgage credit continues adequate. Family formation is increasing, and demand is growing. Vacancy rates have declined from a year earlier reflecting the short supply of housing. Recent increases in long-term interest rates and the possibility of further advances have created some uncertainty about future credit availability.

With inventory positions improving, increases in demand were more fully reflected in production during the third quarter. As a result, labor requirements rose. Civilian employment was up from the second quarter level but not enough to offset a large increase in the labor force. Accordingly, overall unemployment increased slightly to 3.9 percent of the civilian labor force. The increase was due primarily to a large influx of adult women into the labor force which increased the unemployment rate for this group to 4.4 percent of the labor force from 4.1 percent in the second quarter. The unemployment rate for men over twenty declined slightly to 2.4 percent, and for married men it held steady at 1.9 percent. Jobless rates for teenagers and for nonwhite workers continued high.

Increased employment, lengthened workweeks, and rising wage rates resulted in marked pick-up in wage and salary payments. In the third quarter, wages and salaries rose at an annual rate of $7\frac{1}{2}$ billion compared with a gain of $3\frac{1}{2}$ billion in the second quarter (table 11). Virtually all of the larger increase came in private payrolls. Wages and salaries in manufacturing rose considerably during July and August but dipped slightly in September due primarily to the strike in the automobile industry. Payrolls in service and distributive industries continued to expand as did wages and salaries of Government workers. Increased labor income, combined with further gains in nonwage income, pushed total consumer income to a $631 billion annual rate in the third quarter, up $11\frac{1}{2}$ billion from the previous quarter.

Total income grew more rapidly during the third quarter, but after tax income continued to rise at about the same rate as in the second quarter. Although incomes increased more slowly in the second quarter, tax rebates on 1966 tax liabilities reduced net personal tax payments. Further gains are expected in disposable personal income, although an increase in taxes would moderate the rise. Prospects for a pick-up in output, employment, and wage rates suggest continued growth in income payments. In addition, social security benefits will probably increase in 1968.

Consumer spending for goods and services did not quite keep pace with the rise in after tax income during the third quarter, and the savings rate edged up slightly. Consumer spending for goods and services was up $6 billion in the third quarter to a $496 billion annual rate (table 12). Purchases of automobiles and parts leveled off after increasing in the second quarter, and unit sales of new domestically produced cars declined from an annual rate of 8 million in the second quarter to $7\frac{1}{2}$ million units in the third quarter. The slower rise in spending for nondurable goods was

Table 11.--Change from previous quarter in selected measures of personal income, 1965-III to 1967-III, seasonally adjusted annual rates

Item	Unit	1965		1966				1967		
		III	IV	I	II	III	IV	I	II	III 1/
Total personal income	Bil. dol.	14.5	11.5	11.7	9.5	12.0	12.3	11.3	6.2	11.6
Wages and salaries:	Bil. dol.	7.8	10.4	8.9	8.9	9.4	7.8	7.3	3.6	7.6
Manufacturing	Bil. dol.	2.6	3.3	3.4	3.8	2.8	2.9	.5	-.5	1.9
Nonmanufacturing	Bil. dol.	3.3	4.6	3.5	3.2	3.5	3.0	4.8	2.3	3.9
Government	Bil. dol.	1.9	2.7	1.8	2.1	3.0	2.0	2.0	1.6	1.9
Transfer payments	Bil. dol.	4.2	-1.5	1.9	-.5	2.1	3.5	3.3	.6	1.0
Personal tax payments	Bil. dol.	-.9	1.5	3.7	3.7	2.8	2.7	.6	-1.1	3.7
Disposable personal income	Bil. dol.	15.4	10.0	8.1	5.8	9.1	9.6	10.7	7.3	7.9
Disposable personal income in constant 1958 dollars	Bil. dol.	13.0	8.0	3.6	.8	5.8	4.8	7.4	4.3	2.8
Disposable income per capita	Dol.	71	43	35	23	38	41	47	30	31
Disposable income per capita in constant 1958 dollars	Dol.	59	33	13	-2	22	17	32	15	7

1/ Preliminary.

U.S. Department of Commerce and Council of Economic Advisers.

primarily in nonfood. Purchases of food and beverages continued to rise at about the same rate as in the first and second quarters. Consumer spending on services also continued to rise steadily. Prices of consumer goods and services rose at an annual rate of $3\frac{1}{2}$ percent in the third quarter compared with less than 2 percent during the first and second quarters.

Table 12.--Change from previous quarter in major categories of personal consumption expenditures, quarterly, 1965-IV to 1967-III, seasonally adjusted annual rates

(Billions of current dollars)

Item	1965	1966				1967		
	IV	I	II	III	IV	I	II	III 1/
Total personal consumption expenditures	11.4	10.4	3.4	8.5	3.7	6.4	9.5	6.1
Durable goods	2.5	3.0	-3.4	2.7	-.3	-1.2	3.1	.5
Nondurable goods	5.6	5.2	3.9	2.4	.8	3.9	3.0	1.8
Services	3.4	2.3	2.8	3.5	3.1	3.7	3.4	3.8

1/ Preliminary.

With demand for long-term funds continuing strong, yields on long-term bonds rose further in the third quarter and in some cases exceeded last year's peaks. Demand by corporations and State and local Governments for funds continued high. Short-term interest rates also have risen since early summer in response to heavy demand and uncertainty about tax rate changes. Three-month Treasury bills sold to yield 4.45 percent in September, up from the 3.48 percent low in June of this year but still below the 5.36 percent a year earlier.

Interest rates have risen even though Federal Reserve policy has provided ample reserves to the banking system. The money supply increased at an annual rate of 7 percent in the third quarter, about the same as the second quarter rate and slightly higher than the first quarter rise.

COMMODITIES

Livestock and Products

Meat Animals

Consumption of red meats in 1967 likely will average 5 pounds per person more than the 170 pounds consumed last year. Increases of more than 4 pounds per person in pork consumption and 1 to 2 pounds in beef consumption are more than offsetting small declines in consumption of veal and lamb. Next year, consumption of red meat is expected to average a little less than in 1967 with rather small reductions in prospect for beef, veal, and lamb. Pork consumption may be maintained near 1967 levels.

A very small reduction in the number of cattle and calves on farms is developing this year because cattle and calf slaughter, combined, has been large in relation to this year's calf crop and the number of live animals imported. Thus, the beginning inventory next year is expected to be slightly smaller than the 108.5 million head on farms January 1, 1967. As in the last 2 years, reductions in the number of dairy cattle on farms likely will more than offset any increase in beef herds.

Fed cattle marketings during January-September were 5 percent larger than a year earlier. Most of the increase took place in the early months of the year. Fed cattle prices were generally steady from winter into early spring. A price rise began in early May and continued into the first week of September when Choice grade steers at Chicago averaged $28.29. However, prices weakened in late September and by mid-October averaged $27.

There were 8.6 million head of cattle and calves on feed on October 1 in 32 major feeding States, 2 percent more than a year earlier. Cattle feeders have stated plans to market 2 percent more cattle out of feedlots in October-December than in these months of 1966. Fed cattle marketings are expected to continue larger than a year earlier in the first half of 1968, but increases over a year earlier likely will be small. There are already more cattle on feed than a year earlier in weight groups that will be marketed in the late winter and early spring. Fed cattle prices are expected to continue relatively steady this fall and winter, averaging near prices in late-October, $27 Choice steers, Chicago, and about $2 above a year earlier.

Commercial hog slaughter was 14 percent larger than a year earlier during January-September. Weekly slaughter rates under Federal inspection continued moderately above a year earlier in October. Late fall and winter slaughter likely will be near year-earlier levels.

Hog producers in 10 Corn Belt States reported on September 1 that they would farrow fewer sows this fall and winter than in these months a year ago. However, there is a plentiful supply of lower priced feed, so late winter farrowing plans may be revised upward in the coming months.

Barrow and gilt prices at 8 markets averaged $17.80 in late October--almost $5 below the summer peak and $3.40 below a year earlier. Hog prices this fall are expected to average a little below a year earlier but about the same as a year ago in the winter. Next spring and summer, prices of barrows and gilts likely will average near the $20.80 per 100 pounds of April-September 1967.

Lamb slaughter through the first 9 months of 1967 was about the same as a year earlier. However, slaughter supplies likely will be smaller than a year earlier this fall and next winter. Lamb slaughter is expected to continue below year-earlier levels through 1968 because the lamb crop will be smaller.

Choice grade slaughter lambs at San Angelo averaged $22.50 per 100 pounds in late October, about the same as a year earlier. A stronger market is in prospect for late fall and winter. Prices of slaughter lambs next year are expected to be generally above 1967 levels reflecting smaller slaughter supplies.

Dairy Products

Milk production in 1968 likely will total near 119.5-120 billion pounds in prospect for 1967. Large feed grain crops and lower feed prices indicate milk-feed price ratios this fall and winter above 1966-67 record levels. These conditions are expected to continue gains in milk per cow at least as large as the average annual gain of $3\frac{1}{2}$ percent in recent years. Strength in livestock prices and off-farm opportunities for dairy farmers and hired labor suggest that cow numbers will continue downward in the coming year, near this year's 4 percent rate.

Milk output in 1967 is expected to total 119.5-120 billion pounds, slightly less than in 1966 and $4\frac{1}{2}$ percent below the 1961-65 average of 125.7 billion pounds. January-September 1967 output was about the same as a year earlier. Fourth quarter production this year is expected to run slightly under that of the fourth quarter 1966, since it is likely that gains in output per cow from a year earlier will moderate.

This year's smaller decline of milk production was associated with a smaller decrease in milk cow numbers and a larger increase in output per cow than in 1966. Milk cow numbers in 1967 are declining about 4 percent from a year earlier, compared with the 6 percent drop from 1965 to 1966. In 1967, milk output per cow may exceed 8,810 pounds, up about $3\frac{1}{2}$ percent from 1966.

In 1968, prices farmers receive for milk are expected to average near this year's level, if the current level of dairy price supports continues and there is no change in Federal Order pricing provisions. This year, prices received by farmers for all wholesale milk are expected to average about $5.00 per 100 pounds, about 4 percent above 1966.

Cash receipts from farm sales of milk and cream are expected to reach a record high of about $5.8 billion in 1967--up from $5.5 billion in 1966. With little change expected in production and prices, cash receipts from dairying next year likely will be near the record 1967 levels.

Commercial sales of milk in fluid and manufactured dairy products combined are expected to decline this year for the first time since 1961, after gaining about 1 percent annually during the past 5 years. Higher retail prices contributed to this year's decline, together with the increased availability of relatively low-priced substitutes and the general trend away from animal fat consumption. Because of population and income gains, and little change in retail dairy prices, commercial disappearance of milk in all dairy products may rise slightly in 1968.

Domestic use (civilian and military) of milk in all dairy products 1/ in 1967 is expected to be about $2\frac{1}{2}$ billion pounds below the 119.4 billion pounds (milk equivalent) consumed in 1966. Increased USDA donations of dairy products to welfare and school lunch programs this year are offsetting part of the sharp drop in commercial sales.

1/ Includes CCC donations for domestic programs and farm household use of home-produced milk as well as commerical disappearance.

Total use likely will gain in 1968 because CCC donations are expected to rise and commercial sales may increase over 1967 levels. As a result, 1968 per capita civilian disappearance of milk in all forms may be near the 584 pounds estimated for 1967. In 1967, per capita disappearance is falling about 3 percent compared with the 1 percent annual average 1961-66 downtrend.

In 1967, the drop in commercial sales from a year earlier and increased dairy imports in the first half are causing CCC purchases of butter and cheese to total above 7 billion pounds (milk equivalent), compared with 0.6 billion pounds in 1966. Nonfat dry milk deliveries to CCC in 1967 are expected to be about double those in 1966. CCC removals in 1968 likely will be less than this year, but still may be substantial.

Dairy imports are being reduced sharply in the second half of 1967 and will be down in 1968 as a result of the Presidential Proclamation effective July 1, 1967. This brought several dairy products (including butterfat-sugar mixtures, Colby cheese, and frozen cream) under quotas for the first time. These products accounted for most of the sharp gain in dairy imports in 1966 and the first half of 1967. Second half 1967 dairy imports will likely be about half those of a year earlier, and in 1968 imports are expected to total about 1 billion pounds (milk equivalent), compared with around 3 billion pounds in both 1966 and 1967.

Dairy products stocks at the end of 1967 are expected to total substantially above the 4.8 billion pounds (milk equivalent) at the end of 1966 with much of the increase in Government holdings.

Poultry and Eggs

A small decline in production of eggs and turkeys and a slight increase in broiler production is likely for 1968 compared with 1967. Egg production will likely be cut slightly to moderately below the record high levels of 1967, with most of the decline in the second half. Broiler production is expected to increase slightly, but turkey production in 1968 will likely be lower than in 1967.

In cutting back production of eggs and turkeys and holding the increase in broiler production to a modest level in 1968, producers are responding to lower prices and higher production costs which prevailed earlier in 1967. Egg prices declined early in the year and have remained at low levels. Broiler prices in 1967 averaged below year-earlier levels following a decline in prices in the fall of 1966. Turkey prices declined early in the year and have continued below a year earlier.

Egg production in 1968 is expected to be below the 194 million cases expected in 1967. Output during the first half of 1968 likely will be a little above a year earlier, but after midyear, production may drop below the high level of 1967. On October 1, there were 400 million potential layers on farms, 1 percent more than a year earlier. The number of pullets under 3 months old, those which will be entering the laying flock in early 1968, was down 3 percent. The reduced hatch of pullet chicks in recent months will probably reduce layer numbers to below year-earlier levels by next summer. Further, with an older laying flock, the increase in rate of lay in 1968 may fall below average gain of more than 1 percent per year for 1961-65.

The mid-October average farm price was 28.6 cents per dozen, about 13 cents under a year earlier and 9 cents under the 1965 level. Prices to producers in the first half of 1968 will likely average below the 31.7 cents during the first half of 1967. If production next year is cut back as expected, prices later in 1968 are likely to average above the last half of this year.

Broiler production in the first half of 1967 ran 6 percent above a year earlier, but is expected to be below year-earlier levels in the last quarter of 1967. By September, production was cutback to year-earlier levels. Broiler chick placements and eggs set for marketing the rest of this year indicate production will run below the same period in 1966. Production is expected to increase again in 1968, but the increase may not be as large as this year's. A reduction in broiler hatchery supply flocks, which were about 20 percent above 1966 at midyear, has been underway during recent months. The number of broiler-type pullet chicks placed in recent months indicates that the broiler supply flock will be reduced and by mid-1968 will run well below a year earlier. This reduction in hatchery supply flocks will tend to reduce the pressure to expand broiler production, but an anticipated reduction in feed costs will be partly offsetting.

Live broiler prices during the first 9 months of 1967 averaged 13.8 cents per pound, about 2 cents below 1966. Increased competition from red meats, principally pork, and turkeys coupled with the increased supply of broilers had a depressing effect on broiler prices during most of 1967. Some lessening of competition from red meats is expected in 1968. Live broiler prices may average the same the first half of 1968 as in 1967, but likely will average higher during the last half of the year.

Turkey production in 1968 may be slightly to moderately below the record level reached in 1967. With the large increase in production in the first half of 1967, live turkey prices declined from 22.6 cents in January to 19.1 cents in April. By July prices had increased to 20.4 cents and remained at about that level through September before declining to 19.3 cents in October. A large carryover of turkeys into 1968 is expected; larger production is indicated for early 1968, which is the light part of the marketing season. Live turkey prices are expected to be slightly lower in the early months of 1968 than in 1967. But with some reduction in marketing expected in the main marketing period (September-December), prices in that period and for the year likely will average a little above 1967.

Wool

World wool prices fell sharply in late 1966 and declined further in 1967. This resulted in September 1967 prices of Dominion combing wools averaging 15 percent less than a year earlier. World wool production rose last season to a record high, and a further increase is expected this season. Also, present wool stocks in the 5 surplus-producing countries of the Southern Hemisphere are larger than a year ago. World wool consumption was record high in 1966, but a slight decline in total use is expected in 1967. Wool consumption in major-manufacturing countries declined sharply during late 1966 and first quarter 1967. This likely reflected the high prices of wool in earlier months, competition from man-made fibers, and slower rates of growth in general economic activity in some important consuming countries. However, mill use of wool in second quarter 1967 rose slightly, and some additional recovery probably will occur in 1968. But with increased supplies, world wool prices in 1968 are expected to continue at relatively low levels.

The national-average price received by U. S. growers for shorn wool in 1968 probably will run close to the 42 cents a pound, grease basis, expected in 1967. Sheep numbers and wool production in the United States likely will decline in 1968. Mill use of raw apparel wool in 1968 is expected to increase, but prices of domestic wool likely will move with the anticipated low prices of imported wools.

Mill consumption of raw apparel wool in 1967 likely will total 235 to 240 million pounds, scoured basis--down from 267 million pounds in 1966. Inventories relative to unfilled orders for finished wool apparel fabrics have been high since late 1966,

but are currently declining. With rising consumer incomes and relatively low wool prices, mill use of apparel wool in 1968 is expected to total some 10 percent over 1967. Competition from man-made fibers will continue to moderate increases in wool use.

Imports of semi-processed and manufactured apparel wool textiles declined in 1967 with the reduction in wool industry activity. During 1967, imports are expected to total somewhat less than the 84 million pounds, raw wool equivalent, in 1966. Imports during 1968 probably will trend upward, assuming a recovery in wool consumption.

Dutiable raw wool imports during 1968 are expected to total moderately larger than the 120 to 125 million pounds, clean basis, expected in 1967. Increasing mill use of apparel wool and a further decline in U.S. production during 1968 are expected to result in increasing imports.

Carpet wool consumption in U.S. mills during 1968 may recover slightly from the low 85 to 90 million pounds, scoured basis, estimated for 1967. Prices of carpet wools are low, and production of carpets and rugs in 1968 probably will continue the upward trend of recent years. However, wool's share of total fiber consumption for carpets and rugs may move lower as use of man-made fibers increases. Imports of duty-free raw wool in 1968 probably will rise from the 80 to 85 million pounds, clean basis, in 1967, with the increase in consumption.

Crops and Products

Wheat

The autumn of 1967 finds wheat in both the United States and around the world in a substantially different position than that of a year ago. The U.S. wheat supply is larger than in 1966, while the world wheat crop is likely to be nearly as large as last year's record 10.3 billion bushels. In addition, the 1967 world crop is more evenly distributed among countries of the world than was the case in 1966. Coupled with, and partially the result of, the large world supply is the prospect for world trade approximating that of last year. Both the Soviet Union and Mainland China have reduced their purchases from year-ago levels, and India is anticipating a large food grain crop after 2 years of drought-reduced harvests; however, wheat imports could well be higher than last year.

Current prospects for a large world supply and no commensurate increase in demand have brought lower prices both in the United States and in overseas markets. The net export (world) price of No. 1 Hard Winter wheat, ordinary protein, at Gulf Ports averaged 6 percent lower in July-September 1967 than during the same period a year earlier. The decline in the export price of soft wheats, particularly Soft Red, was even greater.

The pressure on world wheat prices brought announcement by the Canadian Government that, for the 1967/68 marketing year, a special subsidy for wheat farmers will be paid. The Government will make up the difference between the announced minimum prices and the actual export prices. The minimum price announced by the Canadian Government is the same as that under the International Grains Arrangement, which is expected to enter into force on July 1, 1968. Canadian wheat producers' incomes are tied to export prices, whereas U.S. producers receive marketing certificate payments in addition to returns from the market.

Except for durum wheat, which is in smaller supply, U.S. domestic prices during July-September were well below the high level reached during the same months in 1966. They reached their highest level of the 1966/67 marketing year at that time, reflecting concern over world wheat supplies which at first appeared short in light of anticipated needs.

Although lower than the year before, the July-September 1967 average farm price was 14 cents a bushel above the national average price support loan of $1.25 per bushel. Having withstood the effects of a record harvest, prices could show some increase. Barring an unexpected decline in exports from the estimated 750 million bushel level, it appears that the farm price for the entire year may average 10 to 15 percent above the loan.

Domestic disappearance of wheat in the United States during 1967/68 is expected to be the same as or slightly larger than last year's 680 million bushels. During July-September, domestic disappearance totaled 220 million bushels, about 25 percent above that of a year earlier. Feed use is running a little above that of a year ago and for the entire year may be somewhat greater than the 93 million bushels in 1966/67. Record-large corn and grain sorghum crops harvested this fall, with resulting lower prices, will tend to prevent any large increase in feeding of wheat. According to revised milling industry data, per capita flour consumption has apparently neither leveled off nor slowed in its decline as was earlier indicated. But with increasing population, total food use of wheat may change little from a year ago.

Thus, with a record-large 1967 crop of 1,554 million bushels and total disappearance slightly above last year's 1,422 million bushels, the carryover on June 30, 1968, is expected to be larger than the 426 million of last summer.

The 1968 Wheat Program is virtually unchanged from that of 1967 except that the national acreage allotment of 59.3 million acres is 13 percent smaller than the 68.2 million in effect for 1967. The average per bushel payment to producers participating in the 1967 program is set at 48 cents, compared with 59 cents in 1966 and approximately 44 cents in both 1964 and 1965.

Rice

The U.S. rice supply in 1967/68 will reach nearly 100 million cwt.--a new record high (all data are on a rough rice basis unless otherwise specified). The 1967 crop, based on October 1 indications, totaled 90.6 million cwt., and the August 1, 1967, carryover of 8.5 million cwt. was about the same as that of a year earlier. Imports in 1966/67 returned to a low level after rising sharply a year earlier. In 1967/68 they are likely to continue small. Food use totaled 24.6 million cwt. in 1966/67, up from the 23.4 million of a year earlier to a new high. In 1967/68, food use is likely to remain at a high level. Food use includes shipments to the Territories and Puerto Rico and use by the armed forces. Brewers' used 3.8 million cwt. of milled rice in 1966/67, the largest quantity since 1955/56. This use has been trending downward, reaching a low point of 2.8 million cwt. (milled basis) in 1963/64, but since then brewery use has increased steadily. Seed use will be tied to the size of the 1968 acreage allotment, but total domestic disappearance in 1967/68 is likely to be about the same as the 32.5 million cwt. of 1966/67.

The supply of rice available for export and carryover in 1967/68 is expected to be around 66 million cwt., nearly 10 percent more than last year. Of the 60.5 million cwt. available in 1966/67, 52.0 million was exported with 8.5 million remaining in the carryover. Exports for dollars accounted for 30 million cwt., setting new record. Japan continued as the largest dollar buyer, but her 1966/67 takings were sharply below that of recent years. Dollar sales to a number of countries in Western Europe increased. Shipments under Public Law 480 (Food for Peace) totaled 22.0 million cwt., with the Republic of South Vietnam receiving the bulk of this.

World rice prices rose sharply in 1966/67 and, toward the end of the year, were sufficiently high to permit the United States to discontinue export payments. These

payments averaged $1.80 per cwt. of milled rice in fiscal year 1966 and dropped to 87 cents per cwt. in fiscal year 1967. In contrast, the average export payment in fiscal year 1960 was $2.73 per cwt.

In 1967/68, exports are likely to continue strong, and some further increase in dollar sales appears probable. The extent of any such increase depends largely on availability of rice from Thailand and Burma, both of whom declined in importance as exporters in 1967. At the present time, it appears that Thailand's crop may be somewhat below that of last year, while Burma's crop may be about the same or a little larger. As a result of record production, Japanese imports may be substantially reduced from the level of recent years.

The size of the carryover on July 31, 1968, will be determined by the level of exports, but is not likely to be drastically different from that of recent years. The national average price support for the 1967 crop is $4.55 per cwt., up 5 cents from the level of the 2 preceding years.

Feed Grains

The total feed grain supply for 1967/68 is estimated at 213 million tons, 14 million tons larger than last year but about the same as the 1961-65 average. The crop, estimated on October 1 at 176 million tons, is about 19 million more than the big 1965 and 1966 crops. With more favorable livestock-feed price ratios in prospect for 1967/68, domestic consumption is expected to be a little larger than the 141 million tons in 1966/67. Exports also may not change much from last year's 22 million tons, since they continue to meet with stiff competition from the large crops in Europe as well as large supplies in surplus grain producing countries. The 1967 crop probably will be somewhat above total requirements in 1967/68, resulting in an increase in the carryover at the end of the year--probably around 6 million tons above the 37 million-ton-carryover this year.

The large "free" supply of feed grains and prospects for the record 1967 crop have resulted in a sharp decline in prices since June. In October, feed grain prices average 15 percent lower than a year earlier and probably will continue well below a year earlier during the fall and winter. With prospects of heavier domestic use this year and assuming larger quantities will be placed under Government loan, a seasonal rise in prices seems probable later in the marketing year. The extent of the seasonal increase will depend to a considerable degree on the rate of utilization as well as prospects for the 1968 crop next spring and summer. With lower feed prices this year, livestock-feed price ratios are expected to be more favorable for livestock producers--especially for hog and cattle feeders and for dairymen--than in 1966/67. Some improvement from the low levels in 1966/67 also appears likely in poultry-feed price ratios.

The total quantity of feed grains placed under loan by farmers in 1967/68 is expected to be much larger than during the past 3 years when price support activity was relatively small. With corn prices much nearer the loan rate this fall and winter than a year earlier, a substantial increase in the quantity of corn placed under loan is in prospect. Government stocks of feed grains are the lowest in nearly 20 years, and sales by the Commodity Credit Corporation this season are expected to continue comparatively light.

The 1968 Feed Grain Program, announced on October 26, provides encouragement to increase diversion of corn and sorghum acreages. The minimum diversion of 20 percent of the base continues to be required for participation in the program. Farmers will receive acreage diversion payments for diverting from 20 to 50 percent of their base corn and sorghum acreage to soil-conserving uses. Barley and oats are again excluded from the acreage diversion provisions of the program. The acreage diversion payment

rate will be based on 45 percent of the total price support times the projected production on the acreage diverted. With the increase in the projected yield per acre, this will give a slightly higher per acre payment than in 1966. Reinstating the diversion for payment was considered desirable in view of the record 1967 crop and the prospects for an increase in stocks at the close of the 1967/68 marketing year. The principal target of the Program is to divert about 30 million acres from corn and grain sorghum production or 10 million more than was diverted in 1967. The Program provides for a loan of $1.05 per bushel and a support payment of 30 cents per bushel for corn, the same as in 1967. Price supports for sorghum grain, oats, and barley also are continued at the same levels as in 1967.

Oilseeds, Fats and Oils

The U.S. supply of edible fats, oils, and oilseeds during the 1967/68 marketing year that began October 1 is forecast at a record 19.0 billion pounds (oil equivalent of oilseeds), some 8 to 9 percent above 1966/67. The increase is due mainly to record supplies of soybeans and higher butter supplies. These prospective increases are expected to more than offset reduced cottonseed oil supplies. Soybean supplies will account for around two-thirds of the total edible fats and oils available during 1967/68. Although domestic use and exports of food fats are expected to increase in 1967/68, the gain will not be as large as the increase in supplies. Consequently, carryover stocks (mainly as soybeans) on September 30, 1968, are expected to rise above the levels of this year.

Total supplies of soybeans during the 1967/68 marketing year that began September 1 are estimated at a record 1.1 billion bushels, compared with 967 million last year. As of October 1, the 1967 crop was estimated at 994 million bushels, 7 percent above the 932 million last year. Soybean acreage harvested for beans is up 10 percent from 1966. Yields per acre are placed at 24.8 bushels, slightly below the record 25.4 bushels reached in 1966.

Soybean utilization in 1967/68 is expected to increase at a faster rate than last year and more in line with the recent average annual rate of about 10 percent. Soybean crushings are expected to reach about 600 million bushels, compared with 551 million last year. Soybean meal demand again likely will outpace soybean oil demand--resulting in a sizable oil surplus. The final level of crush will depend upon such factors as soybean and soybean meal prices, our ability to export soybean oil, and competition from foreign oil-bearing crops.

Soybean exports in 1967/68 are estimated to reach 280 to 300 million bushels compared with 257 million bushels moved last season. Lower U.S. prices will be the major factor governing soybean exports. Despite the expected gain in total soybean utilization during 1967/68, the soybean carryover on September 1, 1968, is expected to increase to around $1\frac{1}{2}$ times the 91 million bushels on September 1 this year.

Soybean prices to farmers during the heavy harvesting months are averaging slightly below the U.S. support rate of $2.50 per bushel. Processors and exporters usually are heavy buyers of soybeans when prices are seasonally low. When this has occurred in recent years, soybean utilization expanded sharply. Prices later in the season likely will return to the support level but probably will not exceed it by any significant margin.

Fruit

Supplies of most fresh and processed fruits during the fall and winter months will be consdierably smaller than a year earlier.

Markets for noncitrus fruits are expected to reflect the short 1967 crop. Production of noncitrus fruits this year is expected to be 14 percent below 1966 and the 1961-65 average. Fresh apples, pears, and grapes, stored in substantial quantities for later marketing, are all in shorter supply than a year ago.

The reduction in supplies of processed noncitrus fruits is pronounced. Carryover at the start of the 1967 packing season was below a year earlier for most items, and the aggregate pack is expected to be down substantially from 1966. Supplies of such important items as canned peaches, pears, and fruit cocktail are expected to be much smaller. FOB prices for most canned fruits are considerably above a year earlier and are likely to continue high through most of the 1967/68 marketing year.

The 1967/68 packs of several frozen fruits and berries may exceed those of the preceding season, but the aggregate pack will be far short of 1964's record output. Total 1967 dried fruit production is down from a year ago, reflecting a sharp drop in raisin output. Dried prunes are expected to be more plentiful than in 1966/67.

First estimates of the 1967/68 citrus crop indicate a sharp reduction in supplies from the heavy levels of a year earlier. Output of early, midseason, and Navel oranges was estimated to be 28 percent smaller than in 1966/67. Production of Valencias in Florida, Arizona, and Texas is expected to be down 30 percent. Florida orange groves have a much lighter set than last year, and the Texas crop was heavily damaged by Hurrican Beulah. Poor weather at bloom reduced the California set. Only in Arizona are prospects better than a year ago.

Grapefruit production, reflecting the same weather problems as oranges, is also expected to be sharply smaller than in 1966/67.

The pack of canned and frozen citrus products in 1967/68 is likely to fall short of last season's record. Packers' stocks of processed items are large, however, and will help offset the reduction in new-crop supplies. Nevertheless, prices for most citrus items, both fresh and processed, are likely to be above the low levels of last season.

United States exports of fresh and processed fruits in 1967/68 may be down a little from the volume of the preceding season, largely because of lower domestic output. But more intense market competition is also likely to be a factor for some items. A record Canadian apple crop and expected large Mediterranean citrus supplies will provide particularly keen rivalry for the Western European markets.

Output of edible tree nuts this year is likely to be about the same as in 1966. A moderate decrease in almond production is anticipated, and the walnut and filbert crops are expected to be down substantially. But a projected 32 percent increase in pecan output would about offset the smaller tonnages of other tree nuts.

Commercial Vegetables

Supplies of fresh vegetables during November and December are expected to total about the same as a year earlier. Early reports indicate there probably will be less celery, carrots, peppers, and lettuce than last fall. But supplies of cabbage will be up sharply, and there likely will be relatively large supplies of snap beans, cauliflower, broccoli, and tomatoes. Onion supplies also are above the low levels of last fall. With ample supplies in prospect for many vegetables, prices are expected to average moderately below the high prices of a year earlier.

Total supplies of processed vegetables for the 1967/68 marketing season are larger than a year earlier, with increases indicated for most items. The aggregate canned vegetable supply is moderately larger than the tight supply of last season, and about average. Supplies of the tomato concentrates, spinach, and sweet corn probably are close to those of a year ago. But stocks of tomato juice and peeled tomatoes are up moderately, and those of snap beans, beets, kraut, lima beans, peas, and catsup are up substantially. Supplies of all leading frozen vegetables are much larger than last season, and the total supply is a record.

Partly because of late harvests, there was general uncertainty regarding ultimate packs this year. This stimulated an already strong market. Prices for most processed vegetables have been running the same to a little above year-earlier levels. However, since indicated supplies are relatively large, prices for the season are expected to average slightly lower than last season.

Potatoes and Sweetpotatoes

Potato supplies for marketing this fall and winter are moderately larger than a year ago. According to the October crop report, the fall crop likely will be 1 percent above last year, for a new record. Prospective output was up substantially in the East, at about the same level as last year in the Central States, and down 3 percent in the West. Although the Western crop is down, the region's marketable supply probably is larger than a year earlier when heavy storage losses occurred in Idaho. Relatively large remaining stocks of summer-crop potatoes have been an added burden to markets this fall. Prices have been averaging sharply below year-earlier levels, and are expected to remain low into early winter.

Sweetpotato production this year was estimated 3 percent larger than in 1966, but moderately below the 5-year average. The increase over last year was the result of better yields, since acreage was down in all States. Sweetpotato marketings are at their usual seasonal peak and will continue in large volume through the fall, then decline seasonally during the first half of 1968. Prices have been moderately lower than a year earlier, and for the season are expected to average well below the exceptionally high prices of last season.

Dry Beans and Peas

Dry bean supplies are tight this season. Although carryover stocks were relatively large, production in 1967 was nearly a fourth smaller than last year and 16 percent below average. Smaller supplies are indicated for all leading classes, including pea beans, Great Northerns, pintos, and red kidney beans. Domestic use is expected to be down moderately this season and exports will be off sharply due to the especially short pea bean supply. Prices are expected to average the highest in many years.

Supplies of dry peas are substantially above the light supplies of last season. Carryover stocks were small, but production was up 11 percent. Exports are expected to be lower than last year due to increased production and lower prices in competing countries. Markets are under some pressure, and prices likely will average moderately lower than a year earlier.

Cotton

A drop in cotton production this year and continued relatively large disappearance point to another significant reduction in U.S. cotton stocks. By next August, stocks of all kinds of cotton may fall to around $6\frac{3}{4}$ million bales. This would be around $5\frac{1}{2}$ million bales below last August and more than 10 million bales below record-high stocks of nearly 17 million bales on August 1, 1966.

Disposal of most of the cotton surplus in 2 years has been brought about by reduced production and a high level of disappearance. Heavy diversion of allotments by producers to soil-conserving uses under Government programs and low yields have led to much smaller production than was anticipated in 1966 and 1967.

The 1967 crop was estimated at 8.1 million running bales as of October 1. This is around 1.5 million bales less than last year and over 6.8 million below the 1965 crop. Both reduced acreage and a lower indicated yield are causing the smaller crop this year.

Harvested acreage for the 1967 crop, at 8.5 million acres, is down 1.0 million acres from last year, while plantings of 9.7 million acres are down 0.6 million acres. About 12 percent of planted acreage was abandoned this year as a result of one of the worst planting and growing seasons on record. This compares with 7.7 percent abandoned last year and the 1961-65 average of 4.7 percent. An average yield of 454 pounds is indicated for the 1967 crop. This is down from last year's yield of 480 pounds and the 1961-65 average of 491 pounds, and it is well below the record high of 527 pounds reached in 1965.

The average price received by farmers for upland cotton in mid-October was 27.26 cents per pound. This was up from 21.27 cents per pound in September, and the 22.45 cents received in October 1966. The support price for the 1967 crop upland cotton (average of the crop) is 19.47 cents per pound, compared with 20.21 cents for 1966. In addition, most producers are receiving higher direct support payments and larger acreage diversion payments in 1967 than in 1966.

On October 11, USDA announced some details of the 1968 Upland Cotton Program. The 1968 program is designed to increase production next year to a level about in line with expected needs for mill consumption and exports. The 1968 program is also designed to encourage production of a higher percentage of the medium and longer staples.

The principal changes from the 1967 program include a reduction in the required acreage diversion percentage for program cooperators (5.0 percent in 1968, compared with 12.5 percent this year), an increase in the voluntary acreage diversion permitted (an additional 30 percent in 1968, compared with 22.5 percent in 1967), a reduction in the payment rate for voluntary diversion (6.0 cents per pound in 1968, compared with 10.78 cents in 1967), and a liberalization of rules pertaining to measurement of acreage allotments planted in skip-row patterns (rules used from 1962 through 1965 will be followed).

Mill consumption of cotton during 1967/68 is estimated at a little over 9 million bales. Factors behind this prospective use include an expected advance in the rate of general economic activity accompanied by a high level of civilian purchases of textile products. Military requirements may show some decline from last year, but likely will remain at a high level.

Tobacco

Cigarette output in 1967 is estimated at a record 580 billion--2 percent above 1966 and 4 percent above 1965. Consumption by U.S. smokers is estimated at 551 billion--10 billion above 1966. Cigarette consumption per capita (18 years and over) in 1967 is estimated at slightly above 1966 and second only to 1963. The continuing increase in the smoking-age population and high levels of consumer income are major factors that seem likely to result in a further modest increase in total cigarette consumption in 1968.

Consumption of cigars and cigarillos in 1967 is estimated at 8.1 billion--over 2 percent below 1966, and about 6 percent below 1965. The downward trend in cigar consumption that has persisted since the unusually high peak of 1964 is expected to level out in the year ahead. Total cigar and cigarillo consumption in 1968 may not be markedly different than in 1967.

Production of smoking tobacco (used in pipes and roll-your-own cigarettes) is estimated at about 62 million pounds in 1967--8 percent below 1966. No appreciable increase in production appears likely in 1968. Output of chewing tobacco in 1967 may be around 65 million pounds--about equal to 1966. Production of snuff is estimated at about 29 million pounds--2 percent less than in 1966 and a long-time low. Production of snuff in 1968 is expected to continue its gradual decline.

U.S. exports of unmanufactured tobacco in calendar 1967 may be around 585 million pounds (about 660 million farm-sales weight)--6 percent above 1966 and the largest since 1946. The outlook for U.S. tobacco exports continues to be clouded by the uncertainty of the political situation in Rhodesia. That country normally ranks second only to the United States as an exporter of flue-cured, the leading tobacco in world trade. Mandatory U.N. sanctions have been in force since December 1966, and substantial stocks are accumulating in Rhodesia. The export payment program, started in July 1966, has strengthened the competitive position of U.S. tobacco. In fiscal 1967/68, total U.S. tobacco exports may be moderately below 1966/67 but well above other recent years.

The 1967/68 supply of flue-cured tobacco is virtually the same as a year earlier but 6 percent below the record level of 1964/65. Although carryover on July 1, 1967, dropped 7 percent below a year earlier, marketings from the 1967 crop will be up 15 percent from the 1966 volume, which was the second lowest in 7 years. During the 1966/67 marketing year, exports of flue-cured (over four-fifths of total U.S. tobacco exports) were record high, but domestic use was below 1965/66. Over four-fifths of the 1967 flue-cured crop had seen sold through November 1 at an average price of 64.5 cents per pound--4 cents below the record average in the comparable sales period a year earlier. Placements under Government loan for price support were 19 percent of gross sales through November 1, 1967. In the full 1966 season, about 7 percent of market deliveries was placed under loan. To help relieve market congestion through more orderly marketing of this year's crop, an advance price-support loan program on 1967-crop flue-cured stored on farms was announced on September 26. This enables farmers to get immediate cash and hold their tobacco on the farm for later marketing when congestion has lessened.

The 1967/68 supply of burley is about 3 percent below the previous year. Both this year's crop and carryover are indicated to be down. Domestic use of burley in 1966/67 rose some and exports about equaled the previous year's high level. Burley auction markets are scheduled to open November 28.

Government price supports are mandatory for tobaccos produced under marketing quotas. The 1967 overall levels of Government price support are up 2 percent from 1966, reflecting the increase in the most recent 3-year average of the parity index over the 1959 parity index. Should the parity index for the remainder of this year remain at its October level, the 1968 price support levels for tobacco would be 4 percent higher than 1967.

The 1968 flue-cured tobacco marketing quota--on an acreage-poundage basis--was announced last July. In a referendum held the same month, growers approved continuation of marketing quotas on an acreage-poundage basis for the 3 marketing years beginning July 1, 1968. The 1968 marketing quotas for burley, fire-cured, dark air-

cured, sun-cured, Maryland, and certain cigar tobaccos must be announced on an acreage allotment basis by February 1, 1968. Shortly thereafter, referendums will be held for growers of burley, Maryland, Virginia sun-cured, and Pennslyvania filler tobacco to vote on whether they favor marketing quotas and acreage allotments on their 1968, 1969, and 1970 crops.

Sugar and other sweeteners

The mainland sugarcane area in Louisiana and Florida is the only one for which acreage restrictions, applied under the provisions of the Sugar Act, are likely to be in effect in 1968. Acreage controls for 1968, which provide for a reduction of 5 percent from the 1967 level, have been announced for the mainland sugarcane area. Current indications are that this year's crop of sugarcane in Louisiana and Florida will exceed last year's by about 11 percent and the 1961-65 average by 22 percent.

Prospective 1967 sugar beet production is 5 percent below last year. The average yield per acre is expected to be nearly 1 ton below last year. Reduced acreage in California has been mostly offset by increases in other States. Programs to expand beet sugar output in future years are under way or have been announced for Northwest Kansas and the Red River Valley in North Dakota and Minnesota

Sugar production in Puerto Rico in 1967 was about 7 percent below last year, and drought this summer may affect adversely 1968 output. While prospective cane production in Hawaii in 1967 is about equal to 1966, sugar output during the first 10 months of 1967 was somewhat below that of a year earlier because of adverse weather conditions early in the year.

World sugar production for 1966/67 amounted to about 72 million short tons, raw value, an increase of almost 5 percent from the previous year and only 1 percent below the record high set in 1964/65. Current indications are that the 1967/68 crop may not differ greatly in size from the 1966/67 crop. Prospective increases in some countries may about balance decreases elsewhere.

Since world sugar consumption has been increasing in recent years at an average rate of about 2 million tons per year, 1968 world sugar supplies should be more in line with world demand than in 1967, when supplies were burdensomely large.

Sugar prices in the "world" market (exports at nonpreferential prices) declined to a very low level in late 1966 and early 1967. A low of 1.35 cents per pound was recorded in January this year; in mid-October the price was around 2.25 cents per pound.

The use of corn sweeteners in the United States continues to increase. Distribution during the first 8 months of 1967 was about 5 percent above a year earlier. Distribution of sugar during January-August this year was slightly below the very large distribution during these months in 1966. During calendar year 1966, corn sweeteners accounted for about 15 percent of the major caloric sweeteners, sugar, corn sirup, and dextrose. In 1956 it was about 10.5 percent.

Production of noncaloric sweeteners--saccharin and cyclamate--in 1966 (the latest data available) amounted to 17.3 million pounds, an increase of 35 percent over 1965. Trade reports, however, indicate that there was a considerable increase in inventories during the year, so that the growth in consumption was appreciably less than 35 percent.

While both the corn sweeteners and noncaloric sweeteners compete with sugar in use in various consumer products, both classes of nonsugar sweeteners have specialized uses for which sugar is not suitable. Consequently, not all the increase in the use of nonsugar sweeteners has replaced sugar in the market place.

All timber products

Timber production from domestic forests in 1967 is estimated at 11.6 billion cubic feet. This is about the same as in 1966 but 9 percent above average annual output in the 1956-65 decade. Saw logs are expected to compose about 49 percent of the 1967 output, pulpwood 27 percent, veneer logs 9 percent, fuelwood 9 percent, miscellaneous industrial products 4 percent, and log exports 2 percent.

There has not been a well-defined trend in stumpage prices for most species of timber sold from the National Forests since the third quarter of 1966. Prior to that quarter, however, prices had been moving up rapidly from several years. The average stumpage price of Douglas-fir in 1966, for example, was $50.00 per thousand board feet--17 percent above the average in 1965 and 102 percent above that of 1962. Oak stumpage averaged $23.20 per thousand board feet in 1966, about 36 percent above the 1962 average.

Consumption of industrial roundwood--saw logs, veneer logs, pulpwood, and all other products except fuelwood--is expected to total agout 11.7 billion cubic feet in 1967. This is about 1 percent below the 11.9 billion cubic feet used in 1966--the high in the consumption of industrial timber products. Consumption of all roundwood in 1967--industrial wood plus fuelwood--is estimated at 12.8 billion cubic feet, about 0.1 billion cubic feet under the volume used in 1966.

Lumber

Lumber production in 1967 is estimated at 35.9 billion board feet. This is a half billion board feet below output in 1966, but 1.3 billion higher than the average for the last decade.

Softwood lumber production in 1967 is estimated at 28.5 billion board feet--0.4 billion board feet under 1966 but 0.5 billion above the average in the last 10 years.

The wholesale price index (1957-59=100) of Douglas-fir, the most important lumber species, in August was 113.5, some 9.1 points above the January level and only 0.6 points under the peak reached in April 1966.

Imports of softwood lumber are expected to total 4.7 billion board feet in 1967 and exports 1.0 billion board feet. Comparable volumes in 1966 were 4.8 billion board feet and 0.9 billion board feet.

Softwood lumber consumption in 1967 is estimated at 32.2 billion board feet. This is about 0.6 billion board feet below 1966 but 0.8 billion board feet higher than the annual average in the 1956-65 period.

Hardwood lumber production in 1967 is estimated at 7.4 billion board feet. This is about 0.2 billion board feet under 1966 but 0.7 billion board feet higher than the annual average in the 1956-65 decade.

In August 1967 the wholesale price index (1957-59=100) for the species and grades of hardwood lumber reported on by the Bureau of Labor Statistics was 112.4. This was 12 percent below the peak of 127.7 reached in June of 1966 and 3 percent under the January 1967 level of 116.3. This decline reflected a drop in hardwood flooring and red oak No. 1 common lumber. Wholesale price indexes for most other grades and species remained near the June 1966 level.

Imports of hardwood lumber in 1967 are expected to be about 0.4 billion board feet, about the same as in 1966. Exports are estimated at 0.2 billion board feet, about 0.1 billion board feet higher than in 1966.

Consumption of hardwood lumber in 1967 is estimated at 7.6 billion board feet, slightly under the 1966 level of 7.8 billion board feet. The 1956-65 annual average was 6.8 billion board feet.

Pulpwood

Domestic pulpwood production in 1967 is expected to be about 56 million cords. This is 2.7 percent above the 1966 cut--an increase that is substantially below the average annual increase of 5 percent which prevailed in the 1962-66 period.

There were general increases in pulpwood prices in the latter part of 1965 and in 1966. In the Midsouth, for example the price of southern pine roundwood increased from $15.90 per cord in 1964 to $16.85 in 1966. Hardwood roundwood prices rose from $13.15 per cord to $15.05. Fragmentary data suggest further small increases in 1967.

Pulpwood consumption in U.S. mills in 1967 is estimated at 57 million cords. This is a rocord figure exceeding 1966 consumption by 3 percent. However, the increase in the volume used in 1967--1.6 million cords--is less than the 1966 increase of 2.6 million cords and the 1961-65 annual average increase of 2.5 million cords.

Softwood plywood

Softwood plywood production is expected to be about 12.8 billion square feet (3/8-inch basis) in 1967, some 1.2 percent above output in 1966 and 3.0 percent higher than in 1965. These increases are substantially under the annual average increase of 8.6 percent in the 1956-65 decade.

During the first 7 months of 1967, the wholesale price index (1957-59=100) of softwood plywood remained stable at about 80.0. However, in early August prices began to rise rapidly. The increase (roughly 15 percent from the first of August to mid-September) appeared to be mostly attributable to the temporary closedown of many logging operations and some millios because of an unusually bad fire situation.

Softwood plywood consumption in 1967 is estimated at 12.7 billion square feet. This is 1 percent above 1966 consumption and 2.4 above that of 1965, but much below the annual rate of increase of 8.6 percent which prevailed in the preceding 10 years.

Hardwood plywood

Hardwood plywood production in 1967 is estimated at 2.1 billion square feet (surface measure), slightly below the 2.2 billion square feet produced in 1966 but 1.4 times output a decade ago.

The wholesale price index of domestically produced hardwood plywood in August was 98.0 (1957-59=100). Although some fluctuation has occurred, current hardwood plywood price levels have been maintained without significant change in recent years.

Hardwood plywood imports in 1967 are estimated at 2.4 billion square feet and hardwood veneer imports at 1.7 billion square feet. These levels are respectively 6 percent and 5 percent below 1966. Exports are not significant.

Consumption of hardwood plywood in 1967 is expected to be 4.4 billion square feet. This is 5.7 percent under 1966 but 1.9 times the 2.3 billion square feet consumed in 1957.

Veneer logs

Softwood veneer log production in 1967 is estimated at 5.6 billion board feet. This exceeds the 1966 cut by 1 percent and is some 2.3 times the output of 10 years ago.

Softwood veneer log production is concentrated in the West, largely in Oregon. However, output has been rising very rapidly in the South since 1963, and by the end of 1967, southern plants are expected to have the capacity to use over a billion board feet of logs a year.

Hardwood veneer log production in 1967 is estimated at 745 million board feet, some 5 percent under the 1966 cut. In the last decade and a half, output has fluctuated between 0.7 billion and 0.9 billion board feet a year.

The latest data available indicate that veneer log prices are rising--a continuation of trend that has been upward for several years.

Naval Stores

For the second consecutive year, domestic and export utilization of U.S. rosin and turpentine in the 1967 crop year ending March 31, 1968, are expected to substantially exceed production. Domestic rosin stocks next March 31 are expected to be down 11 to 13 percent from the previous year and 18 to 20 percent from March 31, 1966. The decline in rosin stocks during the two year period may reach 250 thousand drums. U.S. turpentine stocks may reach their lowest point in over 20 years.

The continued reduction in rosin and turpentine stocks stems primarily from reduced domestic production and increased export demand for U.S. rosin because of delayed and haphazard export shipments from Mainland China.

Domestic production of all types of rosin and turpentine in the 1967 crop year will decline for the second consecutive year. Overall output is expected to be down about 5 percent from last year and 10 percent from the 1965 crop year. A slight increase in tall oil rosin production during 1967 will fall far short of offsetting substantial declines in gum and stem distilled wood rosin. Total U.S. rosin production in 1967 is estimated at less than 1.9 million drums, the lowest since 1958. Production of all types of turpentine is estimated at about 630 thousand barrels, the lowest since 1960.

Not much change, possibly a slight decline, is likely in overall utilization of U.S. rosins. This results primarily from lower requirements in paper (because of a hesitation in growth of paper production) and synthetic rubber.

Domestic industrial utilization of turpentine is likely to continue expanding at the expense of retail sales and exports. Continued upward pressure is expected on turpentine prices.

The Demand and Price Situation is published February, May, August, and November.

The next issue is scheduled for release February 1968.

U.S. Department of Agriculture
Washington, D.C. 20250

OFFICIAL BUSINESS

POSTAGE AND FEES PAID
U.S. Department of Agriculture

LIST OF TABLES

☆ U.S. GOVERNMENT PRINTING OFFICE: 1967 301-753 (ERS-92)